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AIRLINES

Spain swoops on Venezuelan carrier

Page 24

World News

Yugoslav PM warns rebel republics not to secede

Yugoslav prime minister Ante Markovic warned of economic catastrophe and violent ethnic clashes if Croatia and Slovenia carry out plans to declare independence from the federation this week. He said the federal government would use "all means available" to prevent such a situation. Page 22

Sununu's last chance

White House chief of staff John Sununu may be on his last chance despite his weekend apology about his use of corporate jets and other travel arrangements. Page 22

US envoy to resign

The US ambassador in Bonn, Vernon Walters, 74, a military veteran who presided over German-American ties during German reunification, said he was resigning.

Township violence flares

At least 20 people were killed in South Africa's black townships in the 24 hours after rival anti-apartheid movements and the white government agreed to join forces to try to end the carnage. Page 4

Civil servants complain

German civil servants, stunned by parliament's decision to switch from Bonn to Berlin, are demanding compensation for being forced to move 375 miles to keep their jobs. Estimates criticised, Page 2

Expelled writer safe

Abdelmoumen Diouri, the Moroccan dissident expelled by France to Gabon as he was about to publish a book on King Hassan, has said he is safe, healthy and not in prison.

French police on trial

Christian Prouteau, former head of France's anti-terrorist unit, went on trial in Paris with two colleagues on charges of fabricating evidence against three Irish citizens who were later cleared.

Belgian trains collide

Seventy-six people were hurt when two rush-hour trains collided at Brussels central station. Most of the injured later left hospital.

Third night of rioting

A third night of violence in the southern French town of Narbonne left 14 riot police injured in clashes with youths of Algerian descent.

Hanoi looks west

Vietnamese leader Nguyen Van Linh told a communist party congress that Hanoi would seek closer ties with non-communist countries in Asia and the west. Party vow, Page 4

French flights hit

French air traffic controllers staged their first nationwide strike since 1988, forcing airlines to cancel hundreds of flights to domestic and European destinations. Page 2

Schwarzkopf's $5m deal

Gulf War commander General Norman Schwarzkopf has sold the world rights of his planned autobiography for a sum estimated at over $5m, the New York Times reported.

Born-again Albanians

Some 100 Albanian children were baptised, formally entering the Christian church in a country where all forms of religion had been banned for 24 years.

Irish lakes cleanest

Ireland's lakes and beaches came out cleanest in an EC pollution survey which indicated that Community waters are improving. Page 3

Rufino Tamayo dies

Rufino Tamayo, whose sensuous colours and surrealistic images made him one of the century's most acclaimed painters and muralists, died in Mexico City, aged 91.

Business Summary

Carrefour pays up to FFr5.2bn for rival retailer

Carrefour, the leading French hypermarket group, is to pay up to FFr5.22bn ($850m) to take control of rival retailer Euromarché.

The company announced it had agreed to buy both Viniprix, a holding company which owns 53 per cent of Euromarché, and Euromarché itself. Page 23

INTERNATIONAL Business Machines has formed a strategic software alliance with Lotus Development, one of the leading publishers of personal computer software, under which IBM will market Lotus programs for electronic mail and local area network application. Page 23

UK TRADE: A sharp deterioration in Britain's trade performance last month has increased fears of a rising import bill when the expected recovery takes place. The deficit on visible trade in May was a seasonally adjusted £1.1bn ($1.79bn) compared with £858m in April. Page 22

ELJER Industries, Texas-based maker of plumbing, heating and ventilation equipment, which is the reluctant target of a $20-a-share takeover bid from Jacuzzi, the whirlpool bath maker owned by Britain's Hanson group, has agreed to meet the company's president to discuss the proposed acquisition. Page 24

PILKINGTON: A successful bidder for the UK glassmaker could be required to buy back shares in subsidiaries for £250m ($407m). The potential "poison pill" is revealed in the accounts for the year to end March. Page 23

SOUTH Africa's economy shows no signs of emerging from a 27-month downswing, according to the Reserve Bank. Real gross domestic product fell by 1 per cent in the first quarter of 1991, the sixth consecutive quarterly decline. Page 4

ODEBRECHT, Brazilian construction, process plant, mining and engineering group, plans to break into the UK offshore oil and gas fabrication industry. An Odebrecht subsidiary agreed to acquire SLP Engineering, a manufacturer of structures for the North Sea, from the UK's George Wimpey. Page 23

CAR sales: Fiat, the Italian car maker, and Peugeot of France saw sales of new cars drop steeply in western Europe during the first five months of this year. Page 2

HEIDELBERGER Zement of Germany is to buy a 40 per cent stake in two of the largest Czech cement companies, Pragocement and Ceva Kraluv Dvur, for DM32m ($17.7m) each. Page 6

NIGERIA paid DM800m ($444.4m) towards the construction of a DM2.4bn aluminium smelter, against the wishes of international creditors who have demanded that the project be scrapped. Page 4

PIRELLI, Italian tyres and cables group battling for control of Continental, its German counterpart, played down suggestions that the removal of two top executives would improve chances of the merger. Page 25

DUSSELDORF Stock Exchange, Germany's second largest bourse, indicated its willingness to participate in the creation of a unified securities trading system, but held out for the continued separate existence of regional bourses. Page 28

WACHOVIA Corporation, one of the leading banks in the US south-east, greatly extended its geographical reach with an agreement to acquire South Carolina National, the oldest and largest bank in South Carolina, in a stock-swap agreement worth about $830m. Page 24

Tokyo moves to calm markets in wake of Nomura and Nikko resignations

Japan considers rule change after broking scandal

By Robert Thomson in Tokyo

THE JAPANESE government sought to convince financial markets last night that the worst was over in a series of confidence-shaking scandals that led to the resignations yesterday of the presidents of two leading stockbrokers, Nomura Securities and Nikko Securities.

Mr Ryutaro Hashimoto, the finance minister, said the government was considering tighter controls over the securities industry, which has been shamed by the surfacing of links to crime syndicates and by confessions that favoured corporate customers were compensated for trading losses.

Japanese financial institutions were shocked by the resignations of Mr Yoshihisa Tabuchi, Nomura's president, and Mr Takuya Iwasaki, Nikko's president, and by further admissions from two other members of the Big Four group of brokers – Daiwa Securities and Yamaichi Securities – that they had compensated clients.

In response, the Tokyo stock market's Nikkei average fell 509.62 to 23,765.46, and traders said long-term damage had been done to investors' confidence in the securities industry, which is now paying for sins committed during an era of financial excess in the late 1980s.

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A giant's reputation in jeopardy ...... Page 21
World stocks ...... Page 41

The Finance Ministry considered that the gangster links were more serious than the compensation of favoured clients, which is apparently why Mr Tabuchi and Mr Iwasaki offered their resignations, while the presidents of Daiwa and Yamaichi retained their posts.

Mr Tabuchi did not specify the reason for his resignation, other than to say that he was ultimately responsible for the firm's behaviour.

He said he could not comment on individual transactions because "we have a responsibility to protect client confidentiality".

Nomura maintains that it was unaware of the gangster links of a Japanese golf club, Iwama Country Club, in which an affiliate bought memberships worth Y2bn ($14.38m) in 1988. The securities house has yet to comment on reports that an affiliate also lent Y16bn to the same gangster group, Inagawakai.

Mr Iwasaki said he had decided to resign after revelations that the brokerage's affiliates had lent Y20bn to the same gangster group and bought memberships worth Y2bn in the same golf club. These acts "run counter to corporate ethics and common sense", he said.

Both men will formally resign at shareholders' meetings on Thursday, and both will be replaced by vice-presidents, Mr Hideo Sakamaki at Nomura and Mr Kichiro Takao at Nikko.

Board members at Nikko also decided that they will return bonuses paid to them in the 1990 financial year.

Meanwhile, Daiwa admitted it had compensated favoured clients for Y12.6bn in securities losses last year and Yamaichi said it had covered trading losses for four corporate clients totalling Y753m.

All of the Big Four have now admitted compensating favoured clients, in spite of repeated warnings from the Finance Ministry against the practice.

Mr Hashimoto, an influential politician who has been embarrassed by the scandals, expressed his "deep regret" and said that "the series of incidents reported so far will undermine investors' confidence in the stock market".

There are widespread fears that the Tokyo stock market, which has been weak in recent months, will plunge in coming days, putting further pressure on those Japanese companies, financial and industrial, which have relied heavily on share trading as a source of profits in recent years.

Smaller Japanese brokerages, which are more dependent on individual investors and will be more badly bruised by a downturn in confidence, expressed disgust at the behaviour of the Big Four.

Mr Hiroki Mori, president of Gifu Daiichi Securities, based in central Japan, said private investors had asked why they were not entitled to compensation for losses.

Bowing out: Nomura president Yoshihisa Tabuchi announces his resignation yesterday

Talks on full European union fail

By Ian Davidson in Dunkirk and Philip Stephens in London

BRITAIN AND France failed to resolve their differences over the final target of European economic and monetary union after three hours of intensive talks yesterday.

However, at their closing press conference President François Mitterrand and Prime Minister John Major went out of their way to be conciliatory to each other's point of view on the more general objectives of the European Community. They also stressed that the 12 had until the end of the year to conclude their negotiations in the two inter-governmental conferences on Emu and european political union.

Mr Major and Mr Mitterrand emphasised that the summit was mainly intended to take stock of the progress of the negotiations so far, but not to take firm decisions.

Mr Major laid considerable emphasis on the question of European defence in the context of the european political union treaty. "It is vital to reach agreement on European defence", he said. "We need to spell out our long-term concepts, and at the same time be certain what they mean in practical terms."

However, Mr Major appeared to give little ground in the long-standing argument over the ultimate target of a single currency as the final stage of Emu. "We cannot determine the outcome until the conclusion of discussions in the months head. Progress towards Emu is not just a question of dates but also depends on key questions of economic convergence. "We need to see if it is a justifiable proposition to move from 12 currencies to one."

Mr Major also continued to resist the use of the word "federalism" as part of the objective of the European Community. "In its connotation as centralisation, it is not an attractive concept in the UK," he said.

President Mitterrand confirmed that France's preference continued to be for the use of the word "federal", but he added: "It would be premature to force the question on our partners before the discussions are concluded."

Reuter adds: The European Community should avoid a showdown with Britain at Friday's Luxembourg summit over whether to use the word "federal" in a draft treaty on political union, Dutch foreign minister Hans van den Broek said.

"Why always single out the UK? We know where the sensitivities lie...Others have significant sensitivities on a lot of other issues," he said.

Kinnock meets Kohl, Page 8

Worldwide share prices hit by Tokyo problems

By Our Economics Staff

THE UNFOLDING scandal in Tokyo combined with local factors to knock the stuffing out of world equity markets yesterday, while the dollar ended lower following Sunday's Group of Seven meeting in London.

Futures-related selling and weak markets abroad depressed Wall Street, where the Dow Jones Industrial Average was down about 40 points, or 1.35 per cent, around midsession.

In London, anxiety about a possible German interest rate rise contributed to a 1.17 per cent or 29.2 drop in the FT-SE 100 index to 2,458.3.

Second thoughts about the economic consequences of moving the German capital to Berlin caused the 30 share DAX index in Frankfurt to lose 20.30 to 1,591.56.

After a day of fluctuation, foreign exchange operators decided to take the G7 threat of central bank dollar sales seriously and pushed the unit lower on profit-taking. In early London trading it moved up towards resistance at DM1.82 but retreated sharply after failing to break through this level.

World stock market reports and currencies, Section 2
UK trade deficit, Page 22

Communists fight to halt Soviet privatisation law

By John Lloyd in Moscow

HARDLINE and moderate Communists in the Soviet parliament yesterday fought to stop, or at least dilute, important legislation allowing the privatisation of state enterprises.

Mr Yegor Ligachev, until recently the most powerful hardliner in the former Politburo, led the assault against measures which the Soviet government is anxious to push through as part of its economic reforms.

Yesterday's debate in the Supreme Soviet showed that hardliners and centrists both regard the battle over privatisation as crucial to the future shape of the Soviet political and economic system.

Their coalition may be enough to slow or even stop the passage of the bill, or if it is passed, to render its proposals meaningless.

A final vote on the legislation is expected in the next few days.

Mr Ligachev launched a sharp attack on President Mikhail Gorbachev, saying he had "changed his mind on private property", from his earlier refusal to contemplate it.

Mr Alexander Kraiko, a member of the Communist Party Central Committee, suggested that criminals would take the bulk of the privatised assets. "We should be very careful – there is a real danger that state property will find its way to the shadow economy."

Even those who spoke in support of the law being passed made it clear they feared it would be explosive in effect. Mr Anatoly Denisov, moderate chairman of the Supreme Soviet's ethics committee, said: "We must be very cautious because this will lead to a new economic and social base in society."

The government plans relatively rapid progress – although the law itself is hedged with restrictions.

Mr Vladimir Shcherbakov, the first deputy prime minister, told deputies that the government wanted to take between 40 and 50 per cent of industrial enterprises out of central state control in the first phase of privatisation, between the bill's passage and up to 1992, and that this would subsequently rise to between 60 and 70 per cent in the second phase, up to 1995.

Excluded from privatisation are defence plants which have not been marked for conversion to civilian production, railways, air and seaports, space research centres and power plants.

The draft law would allow the "destatisation and privatisation" of state property, and allow the republics to establish their own regulations for the sale.

Foreign companies and citizens can buy shares and enterprises on their own account, or in partnership with Soviet enterprises and individuals. The process will be controlled by the USSR State Property Fund, which is to present periodic reports to the Supreme Soviet.

Battle of the plans, Page 3

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Iran presents a new face to attract western investment

Gholamreza Aqazadeh, Iran's oil minister, plans to boost oil production by 50 per cent to 5m barrels a day - its pre Iran-Iraq war level - by 1993. He needs western technical aid and $5bn in cash to do so. Page 4

MARKETS

STERLING
New York lunchtime: $1.6425
London: $1.6425 (1.631), DM2.93 (2.935), FFr9.9525 (9.965), SFr2.52 (2.5225), Y228 (228.75), £ index 89.9 (89.7)

GOLD
New York: Comex Aug $365.2 (368.1)
London: $361.2 (366.8)

N SEA OIL (Argus)
Brent Aug $18.3 (−0.175)

Chief price changes yesterday: Page 23

DOLLAR
New York lunchtime: DM1.78445, FFr6.0595, SFr1.5323, Y138.95
London: DM1.7845 (1.799), FFr6.05 (6.11), SFr1.5335 (1.5465), Y138.85 (138.95), $ index 67.9 (67.9)
Tokyo close:

US lunchtime rates
Fed Funds 5¾%
3-mo Treasury Bills: yield: 5.71%
Long Bond: 95
yield: 8.51%

STOCK INDICES
FT-SE 100: 2,458.3 (−29.2)
FT Ordinary: 1,921.1 (−26.2)
FT-A All-Share: 1,182.63 (−1.1%)
New York: DJ Ind. Av. 2,924.42 (−41.14), S&P Comp 372.49 (−5.26)
Tokyo: Nikkei 23,765.46 (−509.62)

LONDON MONEY
3-month interbank: [illegible]
Liffe long gilt future: Sep 89 [illegible]

EUROPEAN NEWS

French MPs to vote on nuclear waste proposals

By William Dawkins in Paris

FRENCH MPs will today be asked to agree plans for a permanent solution to the growing waste problem of the world's most nuclear-dependent country.

The first specific debate on nuclear policy by the French parliament aims to end the secrecy surrounding the subject, Mr Dominique Strauss-Kahn, industry minister, who is sponsoring the proposals, said.

The bill, prepared by his predecessor, Mr Roger Fauroux, ousted in last month's government reshuffle, urges the setting-up of two underground laboratories to test suitable sites for waste deep-storage. This could be controversial, given the angry local response to previous attempts to find a nuclear storage site.

Parliament would vote again, after tests end in 15 years' time, on a final storage site, possibly in service between the years 2010 and 2015. The bill leaves open the technical options, letting the government abandon storage for another means of disposal if research produces one in the next 15 years. The bill seeks, among other possibilities, to boost research on improved retreatment of spent fuel, giving more autonomy to Andra, the state-controlled nuclear waste management agency.

France and Britain, alone among the main nuclear energy-using nations, have not decided on deep storage for high-level waste, though the UK has researched two sites for medium-level waste, at Dounreay and Sellafield.

The French plan arises from an all-party inquiry, launched in an attempt to stave off criticism that the government had failed to consult the public on nuclear waste. An independent expert will be asked to choose the test sites, which will cost FFr1bn (£100m) each, over the next six to eight months.

Any opposition is likely to come from environmentally-sensitive socialist MPs officials believe. The Gaullist RPR and centre-right UDF are unlikely to object.

Big job for Turkey's new economics chief

Pakdemirli must restore confidence and assert independence, writes John Murray Brown

MR Ekrem Pakdemirli, the man who now takes command of Turkey's economy, faces a formidable task.

Mr Pakdemirli, named as economics chief by Mr Mesut Yilmaz, the new chairman of the Motherland party (Anap), will have to stamp his mark on policy not just to restore public confidence but also to establish his independence of President Turgut Ozal.

The former finance minister confronts a business community increasingly disenchanted with Anap's management of the economy, a demoralised and fractious bureaucracy and growing union unrest.

Mr Pakdemirli is proposing to bring under his wing both the Treasury and the State Planning Organisation – run by two separate ministers under the outgoing government. President Ozal, anxious to maintain a veto over economic policy, is understood to oppose such a move.

One of Mr Pakdemirli's first jobs will be to agree on a strategy to finance the government's budget deficit, which economists say is the main reason for Turkey's chronically high inflation rate.

The State Planning Organisation supports a high-growth policy based on restraining domestic interest rates even if the central bank has to print money to pay the debts of state enterprises and public sector wages. The bank and its youthful governor, Mr Rusdu Saracoglu, have traditionally used high interest rates to maintain a tight money policy.

The central bank has so far been unable to agree on a new monetary programme like that which helped contain inflation to 50 per cent in 1990. One newspaper reported that Mr Pakdemirli has called for the central bank to provide TL11,000bn ($2.57bn) to cover the budget deficit.

In addition, there may be differences on exchange rate policy. In an interview with Turkey's Ekonomist magazine this month, Mr Pakdemirli called for a managed devaluation.

The strong lira policy of the past two years has hurt exporters, businessmen say. Mr Saracoglu says the high lira value was merely the result of the record current account surplus in 1988 and 1989.

Union demands will have be to answered. After meeting Mr Pakdemirli, Mr Osman Ozbek, head of the agricultural union, said he was calling on the new government to increase this year's farm support prices. Mr Pakdemirli says farm subsidies would be in line with the EC's. On the eve of the party congress, the government unveiled easier payment terms for farmers who sell their product to the state grain board, TMO.

However there is little room for manoeuvre, with state companies such as TMO weighed down by debt. New rules on foreign borrowing, which require state companies to seek permission before looking for foreign loans, were targeted at TMO, which last year borrowed $500m at commercial rates to finance its purchases of wheat from farmers at twice the world price.

Mr Pakdemirli's first steps as economics minister could well determine whether the government seeks to stay the course until autumn next year or opts for early elections, as the businessmen's lobby Tusiad urged at its annual meeting.

Yilmaz: chose new chief

Estimates of move to Berlin criticised

ESTIMATES by Bonn officials of the cost and time involved in moving parliament and the government to Berlin were criticised as greatly exaggerated yesterday, writes Leslie Colitt in Berlin.

Mr Theo Waigel, finance minister, last weekend ruled out higher taxes to pay for the cost of transfering the capital to Berlin, which he put at between DM30bn and DM90bn ($50.3bn). He advocated that the move should not take place for another 10 to 15 years in order to avoid an "avalanche" of costs. Ms Rita Süssmuth, president of the Bundestag (parliament), said a minimum of 10 to 12 years was needed to move the capital.

But Ms Patricia Werner, spokeswoman for Berlin's Urban Development Department, said Mr Waigel's estimated minimum cost was "too high". Her department put the cost at DM25bn.

Many now-vacant east German ministry buildings could be occupied at short notice, she said, after receiving a "coat of paint". Other buildings needed more extensive repairs, however.

Controllers' strike throws airports into chaos again

FRENCH airports were thrown into turmoil again yesterday, by another in a series of one-day strikes by air traffic controllers that has disrupted flights this summer, writes George Graham in Paris.

Many long-distance flights were able to get through, but Air France had to cancel 80 per cent of its medium-distance ones British Airways managed only two out of its usual 10 Paris-London flights and Lufthansa flew only three of 30 services between France and Germany. Air Inter, the domestic airline, cancelled 65 per cent of its 400 scheduled flights.

Controllers are striking over what they say are inadequate levels of staffing to cope with rising air traffic volumes.

Air inter is likely to cancel another 20 per cent of its flights today, because of another strike, this time by navigating staff.

Fianna Fail faces election losses

THE Fianna Fail party led by Mr Charles Haughey, Ireland's prime minister, is likely to suffer serious setbacks in local elections later this week, opinion polls show, Kieran Cooke reports from Dublin.

An Irish Times poll shows Fianna Fail with 39 per cent support nationally, and left-wing parties making strong gains, especially in the Dublin area.

Unemployment, nearing 20 per cent, is the main issue in Thursday's elections.

WEST EUROPEAN NEW CAR REGISTRATIONS*
January-May 1991

	Volume (Units)	Volume Change(%)	Share (%) Jan-May 91	Share (%) Jan-May 90
TOTAL MARKET*	6,145,000	+0.2	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi & SEAT)	1,025,000	+10.7	16.7	15.1
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	619,000	−11.1	13.3	15.0
General Motors (Opel/Vauxhall, US# & Saab)	777,000	+6.5	12.6	11.7
– Opel/Vauxhall	748,000	+9.3	12.2	11.2
– Saab**	22,000	−17.9	0.4	0.4
Ford (Europe, US# & Jaguar)	754,000	+6.6	12.3	11.5
– Ford Europe	745,000	+7.0	12.1	11.3
– Jaguar	6,000	−33.6	0.1	0.1
Peugeot (incl. Citroën)	714,000	−10.8	11.6	13.0
Renault††	604,000	−3.0	9.8	10.1
Mercedes-Benz	202,000	+5.2	3.3	3.1
Nissan	194,000	+11.9	3.1	2.8
BMW	169,000	−0.5	2.7	2.7
Rover†	158,000	−10.6	2.5	2.9
Toyota	157,000	+1.3	2.5	2.5
Mazda	128,000	+5.2	2.1	2.0
Volvo††	95,000	−17.0	1.5	1.8
Mitsubishi	80,000	+4.7	1.3	1.2
Honda†	71,000	+5.4	1.2	1.1
Total Japanese	724,000	+6.1	11.8	11.1
MARKETS:				
Germany*	1,918,000	+46.3	31.2	21.4
Italy	1,120,000	−3.0	18.2	18.8
France	860,000	−17.1	14.0	16.9
United Kingdom	703,000	−23.8	11.4	15.1
Spain	367,000	−18.7	6.0	7.3

*Includes eastern Germany in 1991.
#Cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.
Source : Industry estimates

Fiat and Peugeot car sales tumble in first five months

By Kevin Done, Motor Industry Correspondent

FIAT and Peugeot saw their sales of new cars drop steeply in western Europe during the first five months of this year. According to industry estimates Fiat group sales plunged by 11.1 per cent taking the group's market share down to 13.3 per cent from 15 in the corresponding period a year earlier.

Then, Fiat, which includes Alfa Romeo and Lancia, was still challenging the Volkswagen group for leadership of west Europe's new car market. It has lost ground heavily, however, as its stranglehold on the Italian domestic market has come under strong attack, in particular by Ford, and it is relatively weak in other European markets.

Ford has boosted its share of the Italian market to 11.3 per cent from 7.4 per cent a year ago with an aggressive pricing policy to back new model launches.

The Volkswagen group (Audi/SEAT), General Motors (Opel/Vauxhall) and Ford have all made significant gains, helped by their strong presence in Germany, which is virtually the only source of growth in new car sales in Europe this year.

GM and Ford have both overtaken Peugeot, which includes Citroën, pushing the French car-maker from third to fifth place in the western European new car sales league.

The continuing sharp growth in new car sales in Germany, where demand has been fuelled by unification, is the outstanding factor in the European market this year. In the first five months overall sales in western Europe were an estimated 0.2 per cent higher at 6.15m, but excluding Germany dropped steeply by 12.4 per cent to 4.23m.

The jump in Germany has compensated for sharp falls in other big volume car markets, such as France, Britain and Spain, and has left sales in May and in the first five months of this year virtually unchanged compared with the corresponding periods last year.

According to industry estimates western European new car sales in May, at 1.22m, were 0.4 per cent higher than a year ago. Sales plunged again in May in Britain, France and Spain, however, with estimated falls of 30.9, 21.2 and 16.5 per cent respectively.

Falling demand in Italy was contained with a fall of only 2.2 per cent in May, while new car sales in the whole of Germany jumped by 42.5 per cent to an estimated 408,000 compared with 286,000 a year ago in west Germany alone.

New car sales last month were lower than a year ago in 10 of 17 markets across western Europe and higher in seven; in the first five months they were lower in 13 markets and higher in four: Germany, Austria, Greece and Portugal.

There is concern in the motor industry that demand in Germany could weaken significantly in the second half of the year, as the initial pent-up demand for cars in eastern Germany is satisfied, and as a series of tax increases are implemented.

At the same time there is still little sign of an end to recession in other big volume car markets, most importantly the UK, France and Spain.

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Competition seen as key to successful EC internal market

Commission firm on state aid

By David Gardner in Brussels

THE completion of the 1992 programme, with the removal of remaining technical, fiscal and physical barriers to trade, will not bring about a genuine internal market in the European Community unless companies are forced to compete.

This is one of the main conclusions of the European Commission's 1990 report on competition policy, published yesterday.

It also warns that Brussels intends to reinforce restrictions on state aid to industry and ensure that statutory monopolies in areas such as telecommunications, transport and energy are also forced to compete.

Presenting the report, Sir Leon Brittan, competition commissioner, took a particularly hard line on state aid, saying that "national champions in the Middle Ages generally fell off their horses under the weight of their own armour".

The Commission will follow a stricter policy, in part to ensure that state aid is targeted at the EC's poorer regions which really need it. In the most recent period studied, 1987-88, total EC state aid reached Ecu82.3bn ($97bn), or 2.8 per cent of Community output.

Sir Leon noted that the east Europeans, through their experience of reforming their formerly command economies, had quickly concluded that competition was "not the icing on the cake, but a precondition of success. . . not one of the frills of capitalism that they can come to at a later stage".

The Commission's competition armoury was completed last September when it took on sweeping powers to vet large-scale mergers. Although only 12 mergers were scrutinised in the period covered, the report warns the Commission will not tolerate defensive mergers intended to consolidate dominant positions.

For the first time, there were more EC than national mergers in 1990, and twice as many acquisitions of EC companies by third country concerns as the previous year. Chemicals, food and drink, paper and printing were the most active sectors.

The report says Brussels will step up pressure on monopolies in regulated sectors like gas and electricity, to examine where more open access to the network by competing producers can be achieved without affecting provision of the service. Sir Leon noted that the Commission now has full backing from the European Court to do this.

Last week's decision by EC transport ministers to open up the national rail monopolies was preceded, the report reveals, by a Commission memorandum to the railway companies last March, reminding them they could not use their dominant position to block entrants to their industry.

The European Commission has begun a one-month inquiry into the planned takeover by ICL, the UK computer group controlled by Fujitsu, of the Finnish electronics company Nokia Data, Reuter reports from Brussels.

The Commission must approve the £230m deal within a month or open a full inquiry if it is worried that the takeover could give ICL too much control over the Community's computer and electronics markets.

The Soviet battle of the plans

John Lloyd on the strategies competing for Gorbachev's allegiance

TWO separate strategies are competing for President Mikhail Gorbachev's allegiance, to act as the basis for his request for aid to the Group of Seven summit in London next month.

The "official" plan, drawn up under the aegis of Mr Valentin Pavlov, the prime minister, is still undergoing revision; the other has recently been completed by Mr Grigory Yavlinsky, the former Russian deputy premier, who, with collaborators from Harvard University, is lobbying for it in the corridors of Soviet power.

The two plans have some similarities, which must have impelled Mr Gorbachev to remark last week that they could be synthesised to become the "president's plan".

Both favour liberalising prices, privatising state assets, convertibility of the rouble, reduction and elimination of the budget deficit and encouraging foreign investment. Mr Pavlov speaks of a "resolute transition to market relations" and gives a phased timetable for selling off businesses and for convertibility.

Both regard a "common economic space" within the Soviet Union as crucial, with a common currency, a single monetary policy, co-ordinated budget policies between republics, and elimination of the internal customs barriers erected by republican governments in desperate efforts to protect their markets.

As little as a year ago, the Pavlov plan would have been seen as relatively radical in comparison to what was then available: the prime minister can sincerely claim to be a reformer.

The differences, however, are more important. The Pavlov programme is essentially "reformism within one country": it sets as one of its goals that the Soviet Union joins the world market, but in its own way and at its own speed, without the express assistance of the outside world.

In the Yavlinsky-Harvard plan, the key concept is "engagement" between the leading capitalist countries of the west and Far East and the Soviet Union. It is assumed that while the choice of goals must be that of the Soviet government, the means by which they are achieved will be critically dependent on western assistance – financial and intellectual, private and public.

The Pavlov plan says: we are reforming, and this will make us attractive to your investments on terms which we will decide.

The Yavlinsky-Harvard plan says: reform is only possible through a collaborative transformation based on mutual interest, both in avoiding vast (nuclear, ecological and human) catastrophe and in seizing a unique opportunity.

Second, the Pavlov plan is couched in old command-style prose – even while seeking to reach out to liberal reform.

In addressing what to hard-pressed ministers must be an ever-present nightmare of hunger and riot, the plan calls for union and republican authorities to "ensure full and timely implementation of the economic agreements for 1991 on food and agricultural commodity deliveries, adopted by the union and republics".

The Yavlinsky-Harvard version addresses the possibility of hunger by proposing "balance of payments assistance", that is, western-financed imports of food to substitute for the fall in production in the early stages of reform.

Third, the Pavlov plan pays only cursory obeisance to democratic reform: early in the preamble of a recent (last week's) version of the plan, it assumes "the accomplishment of public consensus in the country".

Yavlinsky-Harvard puts that at the centre, and gives a precise timetable for agreements on a union treaty, common economic agreement and free elections to the Supreme Soviet. It even includes a clause prohibiting ethnic discrimination.

Both programmes agree that the competences of the union and republican governments must be tightly defined. But Pavlov allocates to the centre and to the state, usually implicitly, the main task of economic regeneration for the foreseeable future, while Yavlinsky-Harvard tends to devolve that to the private producer.

Fourth, Pavlov is a plan explicitly born of desperation; Yavlinsky-Harvard of idealism. The preamble to last week's version of the Pavlov plan opens with a Dostoyevskian summary of horror – "the slowdown of industrial production has affected practically all branches of the economy ... export and currency revenues are diminishing ... there are acute food shortages everywhere ... attempts to solve these problems separately ... have led to a break-up of the single economic space ... the hardships ... have been increasingly exacerbated by the unstable political situation".

Yavlinsky-Harvard, though Russian in concept, has been touched by American optimism. It assumes that the time of miraculous advance and change which the latter part of the eighties saw in eastern Europe can continue, given goodwill and good money.

It is between these two rival concepts that Mr Gorbachev must choose. He knows the Pavlov plan – in its current form, at least – will get little truck from the west. He must also judge that the Yavlinsky-Harvard plan could cause the kind of split in the government he has so far been able to avoid.

Chancellor Helmut Kohl will travel to Kiev on July 5 for talks with President Mikhail Gorbachev, Reuter reports from Bonn.

Mr Dieter Vogel, the Bonn government spokesman, said the meeting was arranged yesterday.

Last Thursday, Mr Kohl said he hoped to meet Mr Gorbachev before the July 15-17 economic summit in London. The Soviet president, seeking economic aid for his reform programme, is due to have a separate meeting with Group of Seven leaders after their summit.

French N-test site 'leaking'

GREENPEACE International said yesterday there was growing evidence thet France's Pacific nuclear test site was leaking radioactive material, and called on the European Commission to seek a thorough investigation, Reuters reports from Brussels.

The environmental organisation said it had confirmed that samples it took last year from waters just outside a 12-mile exclusion zone surrounding Mururoa in the South Pacific contained radioactive caesium-134.

It said a five-person Greenpeace scientific team was arrested and deported by the French military last December after trying to take samples closer to Mururoa to determine the source and extent of the contamination.

Greenpeace called on the EC to ask France for comprehensive data on the contamination and insist on access for independent scientists to carry out a full programme of sampling and environmental tests at Mururoa and Fangataufa test sites. Greenpeace officials told a news conference the discovery of caesium contamination in zoöplankton was highly significant.

"Although 130 nuclear tests have been carried out in shafts in the volcanic geology in fragile coral atolls, France has denied so far that it is possible to have leaks from the test sites for hundreds of years," said Greenpeace international test ban co-ordinator Rebecca Johnson.

She said only an independent inquiry could tell whether the Mururoa test area was leaking, by how much, and what impact it was having on the environment.

Greek Communists expel reformers

THE split in Greece's Communist party (KKE) became official at the weekend when the hardline majority expelled seven reformers from the central committee, writes Kerin Hope in Athens.

The KKE also voted in favour of breaking with the Left Alliance, a communist-dominated left-wing coalition seeking a broader political role.

Mrs Maria Damanaki, the Alliance leader, and two other reformers resigned from the KKE politburo in protest, leaving the hardliners under Mrs Aleka Paparriga in control.

The split seriously weakens both parties, leaving the Alliance with only 11 seats in parliament out of the 19 it won at last year's election.

With only eight elderly hardline deputies, the KKE's political influence now seems likely to shrink rapidly. Sales of Rizospastis, the party's daily newspaper, plunged after the Stalinist faction took over editorial control earlier this year. The popular KKE radio station, Athens 902, has also lost a sizeable percentage of its audience.

KKE reformers said that in breaking with the Alliance, Mrs Paparriga had ignored the advice she received from Soviet President Mikhail Gorbachev during a visit to Moscow last week. Mr Gorbechev reportedly spoke of an urgent need for communist parties to remain united and to modernise their ideology.

Eurocrat strike

EUROPEAN Community civil servants voted overwhelmingly yesterday to stage a second two-day strike this month in a dispute over pay, Reuter reports from Brussels.

A spokeswoman for unions representing about 25,000 Eurocrats said employees had rejected the latest offer from EC member states and gave near-unanimous support to the strike, set for today and tomorrow.

EC business came to a virtual halt during the first 48-hour strike last week.

The civil servants, who are generally much better paid than their national counterparts, want a system which links wage rises to inflation to be renewed for another decade when it expires at the end of this month.

The offer from EC member states would have changed the indexing system and limited pay for top officials, the spokeswoman said.

Cleaner waters

WATERS around the European Community are becoming cleaner for swimmers but many resorts are still contaminated by bacteria, the European Commission said yesterday, Reuter reports from Brussels

Tests carried out by EC governments at about 18,000 coastal and inland resorts in 1989 and 1990 showed action to clean up sewage and other discharges was working. But the survey showed wide differences among the 12 member states, and data were not available for some resorts.

Ireland's lakes and beaches came out cleanest, with 96 per cent of the 67 zones correctly tested in 1989 showing levels of intestinal bacteria within the nationally-imposed ceiling, which is stricter than the EC limit.

Only 61 per cent of Spain's inland bathing zones tested last year complied with EC limits, according to the report.

EC indirect tax rate proposal under fire

By David Buchan in Luxembourg

A COMPLEX political agreement bringing EC indirect tax rates close enough to allow removal of fiscal frontier controls in 1993, hit trouble from France yesterday.

Threatening to torpedo the third ministerial meeting on EC tax this month, Mr Michel Charasse, French budget minister, attacked the Luxembourg presidency's suggested compromise on VAT and excise duty.

Complaining at the many special deals in the Luxembourg compromise to accommodate other EC states, Mr Charasse noted the proposed 15 per cent minimum standard rate of VAT by 1993 was too far below France's current standard rate of 16.6 per cent. French officials said later Mr Charasse was only trying to underscore the need to wrap up a package that poses problems for every state.

The 15 per cent minimum, to which the UK is now ready to agree politically, but not in the legally binding directive that would follow, is a linchpin of the Luxembourg plan. It would require Luxembourg and Spain to raise their standard rate from 12 per cent. Germany has said it will increase its 14 per cent standard rate from 1992.

In contrast to its view on VAT rates, Britain is less hostile to legally binding EC minimum rates for excise duties on tobacco and alcohol. It argues these are social taxes to discourage consumption. Whisky exports could be hit if excise rates are forced up in southern EC countries to the proposed EC minimum, equal to £2.36 for a 75 centilitre bottle. The UK excise is almost double this.

Australian left flexes muscles in party tussle

By Kevin Brown in Hobart

THE LEFT wing of Australia's governing Labor party won a significant victory at the party's biannual conference yesterday by successfully blocking the election of a right-wing candidate for the party presidency.

In a secret ballot the 101 conference delegates gave 50 votes each to Senator Stephen Loosley, the candidate of the right-wing faction, and Mr Barry Jones, the non-aligned former science minister who stood with left-wing support. One delegate cast an invalid vote for Mr Jones.

The conference will decide today whether to hold another ballot, or split the presidency between the two candidates. However, the result represents a defeat for the right, which has been the dominant Labor faction since the party returned to power in 1983.

Both Mr Bob Hawke, the prime minister, and Mr Paul Keating, the former federal treasurer, belong to the right-wing faction, which was split by an unsuccessful leadership challenge by Mr Keating earlier this month.

Mr Hawke defeated the challenge largely as a result of the support of the left, and the faction's increased influence appears to have helped it win support from centre-left and non-aligned conference delegates. The left controls 45 conference votes, compared to 38 for the right.

Mr Hawke and Mr John Kerin, the right-wing former primary industries minister who replaced Mr Keating as treasurer, have gone out of their way since the leadership challenge to reassure the financial markets that Labor's fiscally conservative economic strategy will not change.

However, the business community has been concerned by the left's recent success in blocking moves to relax controls on uranium mining, and observers will be watching the conference carefully to gauge how strong the faction's influence has become.

The key test will come in a debate on the economy today in which the left will propose increased spending on infrastructure and the establishment of a national capital fund to support business investment.

The faction may also propose a number of other initiatives, including an inheritance tax aimed at the top 5 per cent of income earners, and the hypothecation for infrastructure investment of receipts from the sale of government-owned airlines and telecommunications carriers.

The proposals will be keenly opposed by the party leadership, which is worried about the impact on the financial markets of any apparent move to the left.

S Korean party chief to stay on

Mr Kim Dae Jung, South Korea's main opposition leader, bolstered by party support, said yesterday that he would stay as leader of the New Democratic Party (NDP), Reuter reports from Seoul.

Following last week's sweeping victory by President Roh Tae Woo's ruling Democratic Liberal Party (DLP) in local elections, Mr Kim offered to resign as NDP leader. But in a vote yesterday, 51 of 56 executive-level NDP members voted in favour of asking him to stay. "I was going to resign as I felt responsible for the failure in the recent elections. However, I will abide by the party's decision," his statement said.

On Saturday, 17 senior NDP officials tendered their resignations to Mr Kim, holding themselves similarly accountable for the election rout.

The DLP won 564 of the 866 seats at stake in the polls to revive elected local governments abolished 30 years ago.

Japan pledges Philippine aid

THE Philippine government and the Overseas Economic Co-operation Fund (OECF) of Japan have reached agreement on the 18th yen credit package for Manila worth Y120.41bn ($530m), writes Greg Hutchinson in Manila.

Mr Hideo Tanaka, OECF senior representative to Manila, said the two governments would sign an agreement next month. He added that the deal followed an assurance by Manila it would raise the required Philippine peso counterpart funding for the 17 projects.

The government, beset by chronic budgetary deficits which at the end of 1990 reached 36.6bn pesos ($870m), has had to scrounge for additional revenues to ensure it meets the required local counterpart financing for foreign assisted projects (FAPs).

This year it will dip into a 10bn pesos general services fund to help fill a funding gap for 22bn pesos worth of FAPs.

Taiwan cuts insurance groups' property ratio

By Peter Wickenden in Taipei

TAIWAN'S parliament yesterday decided to cut the ratio of insurance companies' assets that may be invested in property from one third to 20 per cent in an effort to lessen insurers' capacity to manipulate the property market.

The decision represented a victory for homeless groups, who held street protests and petitioned the cabinet when the revised insurance law was being drafted more than a year ago.

Large but unsophisticated insurance companies, in many cases making underwriting losses, were blamed for property speculation that sent Taipei house prices rocketing beyond the reach of middle-class families in the late 1980s.

Legislators voted to tighten the cabinet's draft insurance law revisions, which had called for a reduction to 25 per cent. They also stipulated a two-year deadline by which insurance companies must meet the 20 per cent limit.

Mr Daniel Tsai, managing director of Cathay Insurance, Taiwan's largest insurer, expressed disappointment at the decision, and denied that insurance companies were responsible for soaring land prices.

Most companies would find it easy to get below the 20 per cent limit, as their total reserves available for investment had increased, so there would be no liquidation of property that might further erode prices, he said.

Parliament is still debating a new limit to the ratio of assets that can be invested in stocks and other securities, which insurance companies have also been widely accused of manipulating.

UN peace plan makes slow progress

Cambodian factions agree arms curbs

By Our Foreign Staff

THE FOUR factions fighting for control of Cambodia yesterday agreed to stop importing arms, a day after they had agreed to an indefinite ceasefire.

Prince Norodom Sihanouk, one of the guerrilla leaders, said the ceasefire and arms pact had been agreed after a day of negotiations among members of the Supreme National Council, a United Nations-sponsored body comprising members of all sides, at the Thai beach resort of Pattaya.

The Soviet Union ships arms to the Cambodian government through Vietnam while the Chinese arm the Khmer Rouge.

Prince Sihanouk said, however, that Mr Hun Sen, the Cambodian prime minister, had rejected a UN-sponsored peace plan for Cambodia.

"He did not accept, he does not accept, he will not accept," the former Cambodian monarch said.

The UN plan calls for UN officials to take over much of Cambodia's administration in the period leading to elections. But the Vietnamese-backed regime has rejected its provision for demobilisation of armed forces before the elections and has demanded more specific measures to block any takeover attempt by the Khmer Rouge.

Phnom Penh also wants peace documents to cite the Khmer Rouge for genocide and to guarantee that the group will not return to power. The Khmer Rouge, allied to the two smaller non-communist factions, has been held responsible for the deaths of up to 1m Cambodians when it ruled the country from 1975 until the Vietnamese invasion in late 1978.

Prince Sihanouk said Mr Hun Sen's rejection of the UN plan meant Cambodia could not look forward to any UN help in ending its civil war. The fighting *has continued intermittently since* 1979 when Vietnamese forces drove the radical Khmer Rouge out of Phnom Penh but failed to achieve a complete military victory.

Peacebroking Indonesian and French diplomats and a UN envoy are expected to try to change Mr Hun Sen's mind about rejecting the plan which was sponsored by the five permanent members of the UN Security Council. They are expected to meet him in Bangkok on Thursday.

The SNC meeting gave Prince Sihanouk the right to contact world organisations, such as the UN General Assembly, the International Monetary Fund and the World Bank, and to lead delegations to meetings. The SNC's membership comprises six Phnom Penh officials and two from each of the guerrilla groups: the forces of Prince Sihanouk, the Khmer Rouge, and the Khmer People's Liberation Front.

Prime Minister Hun Sen has held out against UN proposals

Party vows to retain sole power in Vietnam

VIETNAM'S Communist party yesterday began its first congress since 1986 with a strong statement of intent from Mr Nguyen Van Linh, its leader, that socialism would be pursued despite the collapse of communism elsewhere, agencies report.

"We affirm once again our wish to follow socialism under the clear-sighted leadership of the party. Socialism is the only right decision," Mr Linh, secretary-general, told delegates in Hanoi at the seventh congress, which ends on Thursday. "For our country there is no other way to have freedom and happiness for the people."

Mr Linh said Vietnam should no longer rely on foreign assistance after sharp cuts in Soviet aid. It must become self-reliant and find new sources of trade and aid. "We want to co-operate equally and on a basis of mutual benefit with all countries, without discriminating between different socio-political systems," he said.

Vietnam rejected multi-party systems and other political reforms that had brought chaos in socialist countries, he said. Vietnam planned to open up more politically, but not to waver from the sole leadership of the Communist party.

Vietnam had drawn lessons from its own experience and those of reforms in other socialist countries, Mr Linh said. It would push ahead with efforts to develop a state-regulated market economy.

Mr Linh, secretary-general since 1986, is 75 and has been reported to be in poor health and to wish to step down. He has promoted economic reforms which have been praised by the International Monetary Fund, although Vietnam remains cut off from international financing by a US-led embargo.

"Whether there is democracy or not does not depend on whether there is one party or many parties," Mr Linh said. "Under the former puppet regime, there were many parties, but no one would argue there was democracy," he said in reference to the US-backed Saigon government which the communists defeated in 1975.

● Citicorp is discussing arrangements with Vietnamese banks for remitting cash from people of Vietnamese origin in the US, according to an executive of the US bank, Reuters reports from Hong Kong.

The bank had been granted a licence by the US Treasury to send remittances direct to Vietnam. A large number of the estimated 800,000 Vietnamese living in the US regularly send cash to relatives in Vietnam, but the US Treasury limits the amount to $300 per quarter.

UN ceiling of 30% on Iraq oil reparations

A RESOLUTION has been put to the United Nations Security Council that would require Iraq to pay no more than 30 per cent of its future oil revenues to compensate victims of its invasion of Kuwait, AP reports from the UN.

UN diplomats said yesterday that the Security Council was expected to vote on the resolution today or tomorrow.

The resolution was drafted by Mr Jean-Jacques Bechio, the ambassador of the Ivory Coast, who is the June president of the 15-member council. It is expected to be adopted unanimously, although some nations had favoured setting a ceiling lower than 30 per cent.

A consensus was reached among council members after the US dropped its insistence that Iraq be required to set aside up to 50 per cent of its oil revenues for compensation payments. No other council member had supported US.

Iraq had argued that even a 30 per cent ceiling was too high and called for a moratorium of two to five years on compensation payments.

Council members rejected the request, saying Kuwait and other countries that suffered from the war should not have to wait years to receive compensation. Mr Javier Pérez de Cuéllar, UN secretary-general, had recommended a 30 per cent ceiling.

Under the terms of the proposed resolution, the governing council of the UN Compensation Commission would set the actual percentage of oil revenues that Iraq would have to set aside for compensation payments. It is widely expected to be close to 30 per cent.

S Africa struggles in downswing

By Philip Gawith in Johannesburg

THE South African economy shows no signs of emerging from a 27-month downswing, according to the Reserve Bank. In its quarterly report released yesterday, the central bank said the downturn which started in March 1989 was lasting considerably longer than the average 17 months since the beginning of the 1940s.

Real gross domestic product declined by 1 per cent in the first quarter of 1991, broadly the rate during 1990, and the sixth consecutive quarterly decline.

The picture is partially mitigated by the mildness of the contraction. The report notes that the business cycle indicator has declined by only 5.5 per cent so far, compared with 20.5 and 19 per cent over similar periods in the previous two downswings. World economic growth during a large part of the period contributed to a buoyant export performance.

Also relevant were strong consumer spending and relatively high levels of fixed expenditure.

The current account deteriorated sharply in the first quarter to a seasonally adjusted and annualised surplus of R1.5bn ($530m) from R3.7bn in the fourth quarter of 1990. This was largely the result of factors relating to the Gulf war.

The capital account presented a better picture, with a net inflow of approximately R800m, compared with an outflow of R1.8bn in the fourth quarter.

The improved balance of payments position allowed the Reserve Bank to repay nearly all of its remaining foreign liabilities related to reserves.

Reuter adds from Lusaka: Zambia's President Kenneth Kaunda, chairman of the anti-apartheid states facing South Africa, says he will only normalise relations with Pretoria when the white minority government accepts a system of one person, one vote.

He told members of his party's youth league he was "not convinced" the scrapping of the last legal pillar of apartheid in South Africa meant an end to white rule. The president said there were "still traces of apartheid" despite the repeal last week of the Population Registration Act.

Dealing with Pretoria, page 6

Natal clashes mar peace moves

By Our Foreign Staff

AT LEAST 20 people were killed in South Africa's Natal province during the weekend, amid an agreement between rival anti-apartheid movements and the government to try to end bloodshed which has led to more than 2,000 township deaths since last August.

Police said yesterday it was the most serious upsurge in political violence for several weeks.

The African National Congress and the largely Natal-based Inkatha Freedom Party, whose followers have been involved in repeated factional clashes, agreed with the government on Saturday to join a committee to draft a peace plan.

It was the first time the two rival organisations and the government had met at national level to discuss ways of ending the bloodshed.

The violence will be on the agenda at an ANC policy-making conference in Durban next week, its first in South Africa since it was legalised last year after 30 years underground.

Chief Mangosuthu Buthelezi, the Inkatha leader, played down the significance of the "peace summit" at a press conference in London yesterday but expressed some optimism that the violence would eventually end.

Chief Buthelezi *was visiting* London on his way back to South Africa after meeting President George Bush and other US leaders in Washington.

He is due to meet Mr John Major, the British prime minister, today and Mr Douglas Hurd, the foreign secretary.

Lagos goes ahead with high-cost aluminium smelter

By William Keeling in Lagos

NIGERIA has paid at least DM800m ($272m) towards the construction of a DM2.4bn aluminium smelter, placing the government in conflict with international creditors who have demanded that the project be scrapped.

The payments, confirmed by western diplomats, have been made to Ferrostaal of Germany, the project's contractor. The smelter, with an annual capacity of 180,000 tonnes, is to be the largest in sub-Saharan Africa.

Diplomats say that the capital cost of the project is 80 to 100 per cent above the costs of similar projects elsewhere in the world.

The project is a top priority of the present military administration, which is scheduled to hand over power to a civilian government in October next year, just as the smelter begins production.

Mr Abubakar Alhaji, the finance minister, is also chairman of Aluscon, the company which will own the smelter. Government officials say that the project is at the heart of developing Nigeria's under-used natural gas reserves, with the 540 megawatt electricity station which will run the plant being powered by gas.

Critics of the project point to its lack of backward integration into the domestic economy – the alumina, petroleum coke and pitch will all have to be imported – and say that, thanks to the project's high capital cost, the end product will have to be subsidised to be sold on the world market.

Reynolds International Metals of the US, which is to co-manage the plant with Ferrostaal, has signed a 10-year agreement to buy 140,000 tonnes a year on a formula tied to prices on the London Metal Exchange.

Critics also point to the low level of equity, $300m, of which Ferrostaal as the contractor accounts for just $90m, or the equivalent of 6 per cent of total project cost. The project has been unable to attract any loans from the World Bank, commercial banks or export credit agencies.

Diplomats say the project as currently constituted will forestall any attempt by Nigeria to gain a debt reduction from the Paris Club of creditor nations to which it owes $17.5bn (£10.7bn).

For the project to gain acceptance, the diplomats add, the capital cost must be substantially reduced and equity increased to at least 35 per cent of the total cost.

Senegal wins improved deal on its debts

By George Graham in Paris

SENEGAL has won new and more favourable terms for its debt from the Paris Club of creditor governments.

They have rescheduled Senegal's official debt on the basis of the three options known as the Toronto terms, previously applied only to low-income countries.

Senegal is officially classified as a lower-middle income country, although its gross domestic product is estimated at only fractionally more than the $500 (£307) per head cut-off which would place it in the lowest bracket.

Paris Club members will choose between writing off a third of Senegal's debt service obligations and consolidating the rest at market interest rates over 14 years; consolidating the entire debt at market rates but over 25 years; and consolidating at rates 3.5 percentage points below the market over 14 years.

Participating countries may also, on a voluntary basis, swap limited amounts of their debt into local currency for environmental, aid or investment projects.

These are the same conditions previously applied to the very poorest countries, such as Niger and Mali. Senegal's debt totalled $4.1bn at the end of 1989, equivalent to around 93 per cent of GDP. Almost all of it is in the form of official credits.

Bangui workers heed strike on pay

A GENERAL strike paralysed the Central African Republic's capital Bangui yesterday as private-sector workers demanded big pay rises, Reuter reports from Bangui.

Shops, banks and restaurants were shut and hardly any traffic was on the streets, which were patrolled by the military.

The strike was called by the private-sector trades union in order to *press demands for* across-the-board pay rises of 48 per cent.

A one-day general strike called by students a week ago in protest against a month-long teachers' stoppage was widely followed. The students were angry at the threat to their academic progress.

Iran turns to west for critical financing

But Tehran's new mood may not be enough to attract cash, writes **Deborah Hargreaves**

CROWDS gathered this month outside the luxury Persian hotel in Iran'e ancient city of Isfahan, many of them eager to catch their first glimpse of foreigners for more than 10 years. The National Iranian Oil Company (Nioc) had attracted some 350 foreign oil people to the largest conference organised in Iran since the revolution.

The gathering was ostensibly to discuss co-operation between producers and consumers in the world oil market, but it masked a desperate sales pitch on behalf of the Iranians for western investment in their industry. Tehran is turning to the west for critical financing to rebuild its industrial infrastructure which has been torn apart by war.

Mr Mohammad Adeli, the country's central bank governor, estimated that $300bn (£184bn) worth of damage had been done to Iran's oil industry alone in the eight-year Iran-Iraq war. Western experts say Tehran has traditionally overestimated the cost of war damage, but the country'e latest five-year plan calls for $27.7bn in foreign investment in industrial projects. Mr Gholamreza Aqazadeh, Iran's oil minister, who heads Nioc, is planning to boost oil production by 50 per cent to 5m barrels a day (b/d) by 1993 – restoring it to the pre-war level. In order to do this, he needs technical help from the west and $5bn in cash – some of it to come from overseas.

This need has seen Iran enhancing its image as a pragmatic oil producer and a place where the west can do business. In an address which was read to the conference, President Hashemi Rafsanjani spoke of a new order where "co-operation should replace confrontation".

After the revolution many international oil company assets in Iran were nationalised. Many companies would now like a return to the heady days of the 1950s and 1960s when they held asset stakes in the oil they discovered through a system of concessions. But that is anathema to developing nations. One of the problems Mr Aqazadeh faces is negotiating a formula to get round this impasse. He also faces entrenched opposition at home.

Total, the French oil company, was keen to be the first western group to sign up with the Iranians, and on the final day of the Isfahan conference announced a contract to develop offshore oilfields, help with marketing Iranian crude and arrange pre-financing with a consortium of banks.

The deal is believed to pay Total up to 100,000 b/d of Iranian crude in return for contract work in the offshore Sirri field and a potential leading role in the development of Iran's natural gas – the world's largest reserves outside the Soviet Union.

But Tehran was quick to issue a denial of Total's claim that it had agreed a contract. Mr Aqazadeh explained that his deputy had signed a memorandum of understanding with the company in Isfahan. "We have done 80 per cent of the talking and only a few points remain to be cleared up, but we need a little more time."

Mr Aqazadeh said the formula for payment in oil rather than production-sharing still needed to be developed. He said Nioc was talking to Italian, German and Japanese companies and might be closer to agreement with one of them rather than Total. While no US companies are talking about direct investment, the US government has given permission for Coastal Corporation, a US company, to buy 2.5m barrels of Iranian oil – the first purchase allowed since 1987 – paving the way for wider trade between the two countries. Japan's Kobe Steel is to build a steel plant on Qeshm island, one of three free-trade zones.

But Iran'e ties with France are being cemented by the willingness of French banks to lend money. The Iranian parliament has given permission for the government and central bank to borrow abroad and Tehran has already secured 70 per cent of its borrowing needs for this year, with a $2.6bn general purpose line from Banque Nationale de Paris, and $2.2bn from Société Générale for petrochemicals schemes.

The country is also in the process of rebuilding its relationship with the World Bank, which approved a $250m loan for earthquake aid.

Tehran is in discussions with the World Bank over a memorandum of economic understanding and is talking to the International Monetary Fund over its exchange rate policy. But the talks have yet to yield concrete results.

Iran still remains plagued by indecision over its official exchange rate. It is phasing out the artificial rate of 70 rials to the dollar which made Tehran by some measures the most expensive city in the world for foreign businessmen. It now offers a two-tier system of 600 rials to the dollar as a general rate and a floating rate currently at some 1,300 rials to the dollar for private business and tourists. But the government is still far from a decision on a unified rate for fear of sparking hyper-inflation.

As well as looking to the west, Iran is strengthening its ties with neighbouring Arab countries such as Saudi Arabia. Mr Hisham Nazer became the first Saudi oil minister to visit the country in 12 years when he attended the Isfahan conference. But these countries are also looking to attract more western cash and technology. While they extend the hand of friendship, Iran will be competing for investment dollars.

AMERICAN NEWS

Collor launches fresh drive to protect Indians

By Christina Lamb in Rio de Janeiro

BRAZIL'S President Fernando Collor has launched an environmental crackdown in response to criticism that his government is dragging its feet on promised action to protect Amazonian Indians.

Returning from Washington, where he was much criticised last week for insufficient attention to the Amazonian areas, he ordered a new operation to blow up airstrips used by *garimpeiros*, illegal goldminers in the Amazonian north.

President Collor also dismissed Mr Cantidio Guerreiro as head of the National Indian Foundation (FUNAI) for "inertia".

Mr Guerreiro was accused of failing to comply with a decree issued in April ordering the demarcation of 9.4m hectares of land as reserves for Yanomami Indians within 180 days.

Mr Jarbas Passarinho, the justice minister, said "already 60 days have passed and nothing has been done". But Mr Guerreiro protested that the task was impossible because of an "absolute lack of money".

FUNAI officials say the organisation has received only 0.54 per cent of the Cr15.7bn (£33m) requested.

President Collor has demanded that fresh impetus be given to the creation of Indian reserves.

Under the constitution all 82m hectares of Indian land (around 10 per cent of national territory) must be demarcated by 1993.

The head of Brazil's federal police went to the Yanomami areas in the north yesterday to give the go-ahead for an operation to destroy 20 airstrips, used for smuggling out gold by the miners, who bring in diseases such as malaria to which the Indians have no resistance.

Airstrips destroyed in a fanfare of publicity last year have since been rebuilt and recently Yanomami territory has seen a new influx of miners.

President Collor is anxious that Brazil's poor environmental image improves before the UN World Environment Conference, which his country is due to host next June.

Roger Porter: enthusiast

Activist with firm hand on domestic tiller

Peter Riddell interviews Roger Porter, policy co-ordinator at the White House

LISTENING to Mr Roger Porter, you would hardly believe the Bush administration has been accused of lacking a coherent domestic programme. As President George Bush's chief adviser on economic and domestic policy, Mr Porter challenges the traditional post-war view of an activist president being a high spender, as with Eisenhower, Johnson or even Nixon.

He believes the federal government can have an influential and important role, not as big spender, or regulator, or initiator of massive new programmes, but as a catalyst and partner with states, localities and civic groups.

Mr Porter, 45, has spent his career alternating between the Kennedy School of Government at Harvard and the White House, where he has risen to his current post as the main co-ordinator of Mr Bush's domestic agenda. But he is no detached academic. He is an activist and an enthusiast.

Talking in his office in the White House, Mr Porter sees the changes since 1980 primarily in terms of expenditure. There was "a fundamental shift" of priorities following the big reduction in defence spending and rapid growth of entitlement/welfare programmes during the 1960s and 1970s.

Defence spending was raised, the exponential growth of entitlements was halted (its share of gross national product levelled off) and domestic discretionary spending was held roughly constant in nominal terms.

Mr Porter accepts that this implies a change in the role of government. That ties in with his view on the limits on a president imposed by a federal system where most of the money and decision-making power is at state and local level.

THE US government should grant a $1,000 per-child tax credit to all American families, a federal commission recommended yesterday, writes Lionel Barber in Washington.

The 34-member National Commission on Children recommends the tax credit as part of a $56bn first-year programme to pull more children out of poverty and improve their health care.

The 500-page report is expected to fuel debate about domestic spending priorities and to highlight the growing gap between benefits which go to children and to the elderly. One in four children in the US are raised by single parents.

Senator Jay Rockefeller, the West Virginia Democrat who is considering running for the White House next year, is chairman of the commission, which started work three years ago.

Mr Rockefeller said yesterday it made more sense to spend money to help children than financing a $40bn programme to build a manned space station.

None the less he sees Mr Bush as one of the most energetic presidents of this century in terms of mobilising the American people – not exactly a widely shared opinion given Mr Bush's often stated preference for foreign policy.

Mr Porter highlights education. During the 1980s the number of children in elementary and secondary schools was virtually static at around 46.3m, but spending per child, in constant dollars, rose by 33 per cent. "But no one was really persuaded that we achieved a commensurate change in results."

Mr Bush's "quite different" approach involves "elevating the importance of education as something that should be valued, shifting the focus of attention away from resources, from whether we are spending enough, and on to results at the bottom line and accountability, engaging society in dealing with the problem."

But that does not mean a solution imposed by Washington. A summit conference with state governors has set national standards of what students should know and be able to do at various ages in core subjects, while allowing state and local diversity and control over curriculum, teaching and textbooks.

That represents a different kind of presidential leadership, he claims. "Most of the time people have equated presidential leadership with spending programmes ... Eisenhower got the inter-state highway system that paved America to bring it together. And Lyndon Johnson passed a host of Great Society programmes, most of which were subsequently found wanting and disappeared.

"The notion was that here is someone who has a domestic agenda, but basically it involves spending a lot of money. Now we have a president who is working hard to help society transform itself by establishing a set of goals and helping people see how they can go about the task of realising those goals."

But do these and similar cases add up to a domestic agenda? Mr Porter ticks off a list of bills enacted – the budget deficit agreement, child care, clean air, affordable housing, disabilities, immigration reform, changes in farming support. There are also proposals on education, crime, surface transportation, banking reform and a comprehensive energy strategy, as well as a major research and development thrust.

In many areas, such as transport, the federal government is looking for a larger share from states and localities. Mr Porter sounds defensive when asked whether the states and cities, with their serious fiscal problems, would be able to meet their obligations. The states are not always going to be as fiscally strapped as they are now, he says. They will benefit from the recovery and many have a better fiscal base than the federal government.

When challenged, Mr Porter says he is a conservative, adding that while "George Bush is a conservative, he is not an ideologue. He is interested in government." Many who call themselves conservatives share a commitment to values such as "individual responsibility and the importance of families and voluntary institutions and associations for solving problems," he adds.

Mr Porter quotes the observation of *Alexis de Toqueville in his 1830s* classic "Democracy in America" about people voluntarily banding together and not looking to the government. This has, he believes, "tended to reinforce a commitment to dynamism and innovation that accounts for America being viewed as a land of opportunity, as a country which is on the frontier in the best sense of that term."

Mr Bush, he says, believes that the outcome of the Gulf conflict helped to create a sense in Americans that they could transform the resulting confidence into other areas.

So is there a new domestic order to match the new world order? There is, he argues, "certainly a new domestic vitality".

Report predicts flood of 'environmental refugees'

By Bernard Simon in Toronto

THE deterioration of the environment in the Third World could produce large numbers of refugees seeking sanctuary in industrialised countries, according to a Canadian government report.

Excerpts from the confidential report, which was drawn up by the government's Intelligence Advisory Committee, were published by the Canadian media yesterday.

The report predicts a series of ecological disasters or North-South tensions stemming from severe environmental problems in the Third World. It warns of a flood of "environmental refugees" from places such as the Indian subcontinent and Africa as a result of over-population, soil erosion, expanding deserts and worsening pollution.

The Soviet Union's struggle to overcome ecological problems will also be undermined by budget constraints.

The report also singles out China, where "time is fast running out" to prevent an environmental disaster. It says there is no incentive for China, with big coal reserves, to use cleaner-burning fuels.

The authors of the report caution however, that helping Third World countries overcome environmental problems has commercial drawbacks for business interests in the industrialised world.

It notes for instance that the Canadian forestry industry will face strong competition from Brazil if the stripping of the Amazon rain forest is replaced by a renewable forestry industry. By contrast, environmentally harmful energy policies in Brazil could present lucrative opportunities for Canadian engineering companies.

Argentina planning new currency

ARGENTINA, the world's inflation champion, is to introduce a new currency next year, the fourth in 22 years, Mr Domingo Cavallo, economy minister, has announced, writes John Barham in Buenos Aires.

The currency, to be called the peso, will replace the austral between next January and April. Each new peso is to be worth $1, or the equivalent of 10,000bn 1970 pesos.

It has become a tradition for each administration to mark its assault on inflation with a new currency. But inflation-hardened Argentines are no longer impressed by gimmicks such as changing a currency's name.

The austral, the present currency, was issued in 1985 at a rate of one per $1.25 as part of the anti-inflation strategy of former President Raúl Alfonsín. He made much of the fact that the austral was worth more than a US dollar. Today, however, it takes 10,000 australs to buy one dollar.

Mr Cavallo says his peso will not suffer the same fate because he is making deep inroads into the budget deficit, the mainspring of Argentina's inflation. He also claims that there can be no more devaluation because the April 1 "convertibility law" requires the entire currency in circulation to be backed by the central bank's foreign reserves, and sets the exchange rate at 10,000 australs per dollar.

But the exchange rate is still an explosive subject. Last week, Mr Cavallo made the innocent-sounding statement that the austral-dollar exchange rate would not be fixed at 10,000 "for all eternity". Immediately, Buenos Aires was swept by speculation that devaluation, if not imminent, was a distinct possibility.

The odds are against Mr Cavallo being able to hold the austral at its present rate until the new peso is introduced. Inflation has risen by about 12 per cent since April 1 and the term of Argentine economy ministers is measured in months, rather than years.

Doubts on Escobar prosecution

COLOMBIA'S "so-called incarceration" of Mr Pablo Escobar in a luxury prison raises doubts about its determination to prosecute the reputed cocaine king, Mr Robert Martinez, director of the US Office of National Drug Control Policy, says, AP reports from Washington.

"It remains to be seen how Pablo Escobar's case will go into the future, and I believe that President Bush and the rest of us will have to wait and see where it's going."

Mr Martinez, interviewed on CBS TV, said the administration was pleased that Colombia's President César Gaviria "is trying to develop a judicial system that'll work".

But "I think Colombia will be on trial with Pablo Escobar in terms of how they deal with him, now that he is in incarceration, or so-called incarceration."

The former Florida governor's words were the harshest criticism yet voiced by any administration official of Colombia's handling of the Escobar case.

Mr Gaviria said in an interview with the Bogotá newspaper El Tiempo he had assured Mr Bush that "we would make every effort to build a case". The dismantling of the Medellín cartel was "a severe blow to drug trafficking" and "spelled the end of drug dealers' terrorism in Colombia".

But Mr Martinez said it was difficult for the US to congratulate Colombia on taking Mr Escobar into custody, because "it appears that the fencing is to keep people out rather than to keep him in".

Mr Escobar surrendered on Wednesday. He was taken, along with two lieutenants, to a jail prepared for him in his home town of Envigado. The jail has private baths, gardens, a soccer field, television and game rooms.

On the same day a panel writing a new Colombia constitution to take effect on July 5 voted to ban extradition.

Mr Escobar faces nine indictments in the US on drug trafficking or murder charges.

WORLD TRADE NEWS

Downturn strikes European textiles

By Alice Rawsthorn

THE EUROPEAN textile industry suffered the parallel problems of lower orders and higher stocks in the first quarter of 1991, according to the latest figures from the International Textile Manufacturers Federation in Zurich.

Europe's spinning companies bore the brunt of the first-quarter downturn. The level of yarn orders fell to its lowest for more than four years. The Europeans also saw yarn output fall and stocks rise in the first three months of the year against the preceding quarter.

The sluggish first quarter contributed to a 6 per cent fall in European yarn output since 1987. This compared to an increase of 10 per cent in Asian output over the same period. The US spinning industry has achieved a marginal increase over its 1987 production levels.

Despite the fall in Europe, worldwide yarn output in the first quarter of this year was still 5 per cent higher than in 1987, according to the ITMF.

By contrast, the international weaving industry has sustained a 7 per cent fall in production since 1987. The situation deteriorated in the first quarter when several countries – including France, Japan, Turkey and the UK – saw fabric output fall by more than 10 per cent compared with the same period in 1990.

The only country to achieve an increase in output was South Korea, which saw production rise by more than 10 per cent in the first quarter. The US weaving industry was static.

However, worldwide fabric stocks fell in the first quarter of 1991 compared with the previous three months. This fall was mainly due to sharp stock reductions in India, Spain, the UK and the US.

● The British Textile Confederation (BTC) yesterday urged the European Commission to take action against the dumping of cotton and spun synthetic yarns by Far Eastern, South American and Mediterranean countries when it decides this week whether to take action. The BTC said that, in the past two years in Britain alone, 21 spinning units had closed with the loss of some 2,000 jobs.

US senators press for initiatives against Beijing

By Nancy Dunne in Washington

THE beleaguered US senators who favour extension of Most Favoured Nation trade status for China are urging the White House to take the initiative against "Chinese intransigence" on a wide range of concerns.

One of these actions could mean immediate US support for Taiwan's admittance to the General Agreement on Tariffs and Trade.

A letter to President George Bush, signed by Senator Max Baucus, chairman of the international trade subcommittee, and 14 other senators of both parties, expressed concern about China's human rights violations; its sales of advanced missiles to Syria and Pakistan and nuclear technology to Algeria; its failure to protect intellectual property rights; and trade barriers. "The administration has allowed China to dictate US policy toward Taiwan, declining to support Taiwan's Gatt application despite clear economic benefits to the US," the letter said.

Although it will be vetoed, Congress is expected to vote down the president's recommendation to extend China's MFN status in the next few weeks. Meanwhile legislation to extend MFN with conditions, which could get the two-thirds vote needed to override a veto, is making its way through both houses.

Conditional MFN is seen by business interests as tantamount to MFN withdrawal; it is widely assumed that Beijing will not agree to any conditions Congress would impose.

The administration is re-examining the issue of Taiwan's Gatt membership. Its stance has been that China and Taiwan should be admitted at the same time. It has already cited China under the Special 301 provision of the 1988 Trade Act which requires retaliation if US concerns about the protection of intellectual property rights are not addressed within six to nine months. The White House has also taken steps to restrict some technology transfers to China.

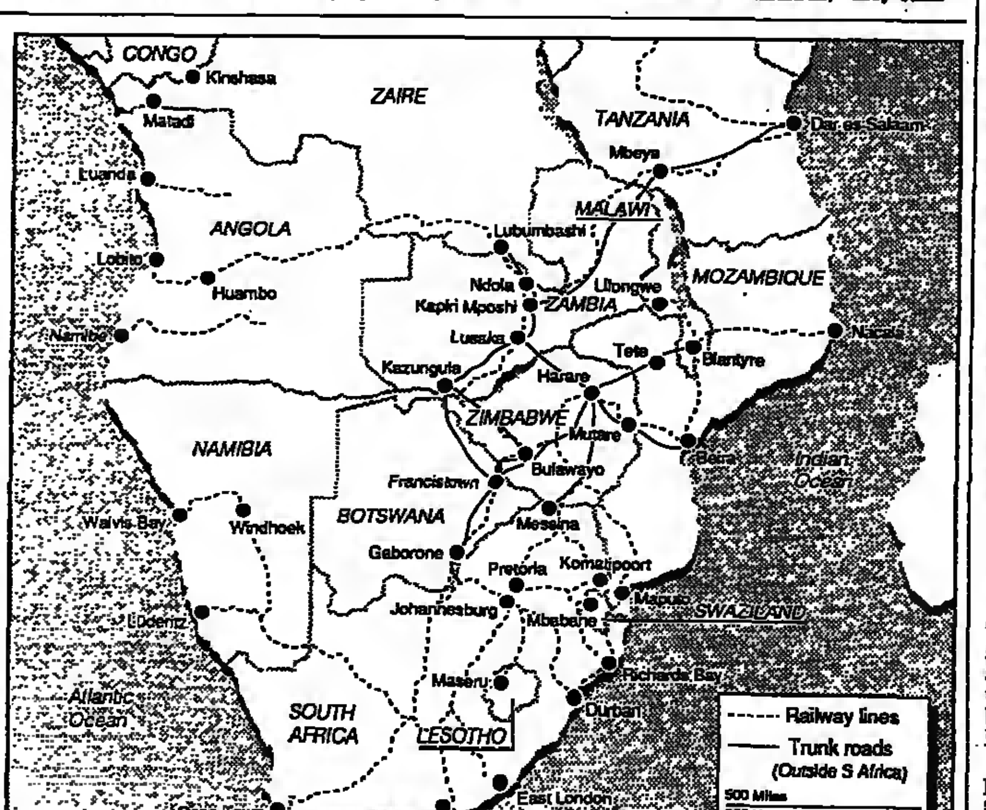
China, unlike Mexico, has consistently refused to respond to US concerns. Mr Linn Williams, deputy trade representative, last week said no progress had been made in recent US-China talks over market access and intellectual property rights.

The senators suggested "concrete steps" the administration could take against China, besides immediate support of Taiwan's Gatt membership. These include a "reinvigoration" of opposition to multilateral loans and strong action under US trade law governing unfair trade barriers and imports produced by prison labour.

"In the area of nuclear and missile proliferation, the US could immediately negotiate for strict, multilateral technology restrictions conditioned upon Chinese adherence to accepted international standards," they said.

Africa keen to deal with a rehabilitated Pretoria

Philip Gawith reports that economic criteria are now as important as politics in determining trade



THE idea of regional economic integration in southern Africa has been on the agenda since the turn of the century, when romantic engineers toyed with the idea of running the gold mines of the Witwatersrand from hydro-power generated at Victoria Falls. That was never realised, but the idea of a regional grouping received new vigour earlier this month when South African President F W de Klerk floated it on his historic visit to Kenya.

Two years ago, such talk would have been inconceivable. But the speed of South Africa's reintegration into Africa has rivalled even the formidable rate of internal political reform. The two, of course, are intimately related. As Dr Erich Leistner of the Africa Institute in Pretoria observes: "Apartheid [was] the futile attempt of white South Africans to escape the realities of their African existence." The shedding of apartheid has not only made South Africa more acceptable to its African neighbours; it has reminded South Africans that their well-being is inextricably bound up with Africa's.

The simultaneous failure of foreign aid and advice to arrest Sub-Saharan Africa's debilitating economic spiral has also brought South Africa and Africa closer together – effecting a fundamental shift in the basis for regional co-operation.

Previously the relationship was distorted by political factors, notably the desire of frontline states to distance themselves from South Africa. To this end they formed the Southern African Development Co-ordination Conference (SADCC) in 1980 with the aim of promoting development in the 10 frontline states and reducing their dependence on South Africa. Only now are economic criteria beginning to enter the discussion.

In terms of infrastructure and trade, there is already a substantial base to build upon. Escom, South Africa's power utility which produces 60 per cent of the continent's electricity, sells to six frontline states. Spoornet, the South African rail company, carried about 6m tonnes of freight in the region last year.

Trade between South Africa and Africa is also flourishing. Accurate figures are difficult to come by, but trade and foreign affairs officials estimate the figure to have been R7bn (£1.5bn) to R10bn last year. Growth is reckoned to have been 40 per cent in 1989 followed by 22 per cent in 1990. South Africa traded with every African country except Equatorial Africa and Djibouti and diplomats visited 21 African countries outside southern Africa during the past year.

Although no longer the sole factor determining relations, politics will remain crucial in determining the rate of South Africa's integration. Developments in South Africa, Angola and Mozambique, to mention the most obvious, will all play a part, while South Africa's rehabilitation will be incomplete without the imprimatur of the Organisation of African Unity.

Africa and South Africa are enjoying a honeymoon phase. Difficult decisions, however, lie ahead.

In particular, what form will regional co-operation take? How will existing, overlapping, structures such as SADCC, the South African Customs Union (which allows for the free interchange of goods among South Africa, Botswana, Lesotho and Swaziland, while Pretoria distributes customs revenue among the members according to an agreed formula) and the Preferential Trade Agreement (a grouping which includes 12 eastern southern states) be rationalised?

Dr Leistner, who believes co-operation should initially be bilateral and functional in emphasis, cautions strenuously against grandiose schemes involving some regional body with regulatory and prescriptive powers. He is sceptical about the prospects for trade integration between countries, with little trade among themselves, most of whose exports are in commodity form out of the region. He also notes that South Africa is faced with factors which have bedevilled other African regional groupings – "narrow nationalism, failure to equalise the costs and benefits of closer union, disparate ideologies, and the lack of a strong political commitment to regionalism".

For Pretoria's partners there is a danger that their industrial sectors will be overwhelmed if fully exposed to competition from South Africa, whose GDP accounts for at least 80 per cent of the region's. If trade is to flourish, South Africa will have to find ways of increasing its imports from the region.

There are two further, related, dangers: excessive expectations and excessive introspection. Guilty on the former count are numerous African politicians who seem to think that South Africa will be able to wave some sort of magic wand over the continent's problems. It cannot. Going too far in the other direction is the ANC, which has come close to enunciating a "South Africa First" policy. Mr Thabo Mbeki, head of ANC foreign affairs, said in May that an ANC government would not be able to do much for neighbouring states.

At one level he is correct: South Africa's own problems are far too pressing to be going off solving others'. On the other hand, South Africa will find it difficult to flourish if the region is disintegrating. Famine, pestilence, disease and refugees do not recognise national boundaries.

Also, 90 per cent of South Africa's trade with Africa goes into the region, so it has a vested interest in its health and prosperity.

The challenge for South Africa will be to balance these two policy imperatives – home and the region. Ultimately, they are complementary, not antagonistic. As Ms Judi Konez, a senior Escom executive, commented: "Together we can achieve a great deal more." It may sound like a building society commercial, but it is the truth.

Czech cement purchases agreed

HEIDELBERGER Zement of Germany has agreed to buy a 40 per cent stake in two of the largest Czech cement companies, Pragocement and Ceva Kraluv Dvur, for DM32m (£10.8m) each, according to a preliminary agreement signed at the weekend, writes Ariane Genillard in Prague.

Ceva Kralnv Dvur, in Beroun, central Bohemia, will also sell 49 per cent of its wholly-owned subsidiary Velkolom Certovy Schody (VCS) to the Belgian company Lhoist for DM22m. VCS operates the largest limestone reserve in eastern Europe and Lhoist intends to increase its initial investment by DM20m within two years.

Holderbank of Switzerland will also buy 30 per cent of the cement factory Prachovice in northern Bohemia for DM42m. Holderbank's ownership of the Czech company is expected to increase later to 57 per cent.

All three new foreign owners plan to redirect cement company's exports towards the German market.

Aluminium go-ahead

THE Venezuelan cabinet has approved two international aluminium projects designed to increase smelting capacity by 454,000 tonnes, writes Joe Mann in Caracas.

The government originally planned to choose only one but surprisingly decided on both.

Total costs for the two projects, which are to be partially financed with debt-equity swaps, are estimated at over $2bn (£1.2bn). Swaps approved for the project are said to reach $577m.

The projects are part of a plan to convert Venezuela into a big world aluminium exporter. Traders fear a continuing build-up of stocks this summer as producers in North America and Europe make only minor production cuts despite falling demand. Cash aluminium closed at $1,285 a tonne yesterday on the London Metal Exchange, a fall of $21 on the day, on fears that LME stocks would surge again this week. Stocks are already at a record 433,400 tonnes.

UK to boost sales of electronic parts to Japanese

By Michael Skapinker

JAPANESE companies manufacturing in the UK buy only 15 per cent of their £1bn-a-year electronic components demand from British-based companies, according to a report prepared for the Department of Trade and Industry (DTI) by InterMatrix, a consulting firm.

Mr Peter Lilley, the trade and industry secretary, yesterday launched the Japan Electronics Business Association (Jeba) to increase the proportion of components supplied by UK companies.

Jeba, set np by senior executives with experience of supplying Japanese companiee and open to all UK-based component manufacturers, will share knowledge on how to sell to Japanese companies and help Japanese manufacturers identify competent UK-based suppliers.

Mr Lilley said the initiative would help the UK maximise the benefits of its success in attracting the highest level of Japaneee manufacturing investment in the European Community. The UK has attracted 41 per cent of all Japanese direct investment in Europe.

The report, by interMatrix, said new electronics-related investment in the UK was likely to slow over the next few years as almost all the leading Japanese manufacturers now have UK facilities. But the report said that the longer Japanese manufacturers stay, the more they tend to use local suppliers.

Total electronic component demand by Japanese manufacturers in the UK is just over £1bn, of which UK-based suppliers presently provide about £150m. The report estimates that between 20 and 30 per cent of the Japanese companies' component demand is met by in-house suppliers, leaving a market of about £765m available to other UK-based companies.

Components demand by Japanese companies in the UK is expected to grow by 67 per cent to £1.7bn by 1995.

Demand not met by in-house suppliers is likely to grow by a similar proportion to £1.3bn.

Demand for Electronic Components by Japanese Electronic Equipment Manufacturers in the UK, free from Jeba, DTI, 5th Floor, Kingsgate House, 66-74 Victoria Street, London SW1E

Bankers oppose US proposals

By David Lascelles, Banking Editor

The UK banking industry is opposed to proposals from the US Treasury to reform US banking law bscause of the impact they could have on foreign banks, according to the the British Bankers Association (BBA).

Lord Inchyra, the secretary-general of the association said yesterday that the proposals would result in major changes which would put foreign banks at a disadvantage in the US market.

The BBA was lobbying against the proposals both directly and through international lobby groups.

The US Treasnry's plan, which is currently being debated by Congress, would oblige foreign banks to incorporate in the US if they wanted to take advantage of more liberal laws which are being proposed. This would restrict their freedom of action and rednce the amount of lending business they could take on.

Lord Inchyra was speaking on the pnblication of the BBA's annual report. An indication of the changing panorama of the BBA is that of the 40 policy issues discussed in the report, 21 relate to the EC and the creation of the single market.

Export sales add gloss to lacklustre trade figures

By Peter Marsh, Economics Staff

THE underlying level of export volumes over the past three months is the highest on record, according to the latest UK trade figures issued yesterday.

The solid performance by exporters has added gloss to an otherwise lacklustre period for UK trade – in which imports have been surprisingly resilient, despite the deep recession.

Exporters have increased sales in spite of poor trading cooditions lo much of Europe and in the US, where demand has been low due to weak economic growth.

The Central Statistical Office (CSO) said in the three months to May, the adjusted volume of non-oil exports – excluding erratic items such as aircraft and gems – rose by 2¼ per cent compared with the previous quarter.

Export volumes in the most recent quarter were 3 per cent up oo the equivaleot period in 1990. They were marginally above volumes between September and November last year – the previous record period.

The underlying level of import volumes over the past three months was 1½ per cent higher than in the previous quarter. Although the figure was 5 per cent less than in the equivalent period last year, import volumes over the past six months have shown little movement – against expectations that in a recession the trend sbould be clearly downwards.

Last month, the value of exports was £8.5bn, an increase of £0.1bn on April, while imports rose by a similar amount to £9.5bn. That pushed the deficit on visible trade to £923m, compared with a revised £837m for April.

For both April and May, government statisticians are assuming that invisible earnings, arising from services, government transfers and banking payments, will provide a surplus of £400m.

The deficit on the whole of the current account for May is put at £523m, compared witb £437m in April.

As invisible earnioɡs fluctuate by large amounts and are subject to continual revision, a better guide to the underlying level of the UK's transactions with other nations is visible trade, less oil and erratics. These statistics, with the exception of a low figure in April, have shown the monthly deficit hovering around £1.1bn since the end of 1990.

Economic activity continues to slow as GDP falls 0.6%

By Rachel Johnson, Economics Staff

THE British government yesterday indicated that the recession has now lasted almost a year by confirming a decline in the level of UK economic activity in the first quarter of 1991.

The Central Statistical Office (CSO) reported that gross domestic product fell – in line with expectations and earlier provisional estimates – by 0.6 per cent between the final quarter of 1990 and first quarter of this year.

According to the so-called average measure, activity was 2.5 per cent down compared with the first quarter of last year.

Yesterday's national accounts gave the breakdown of GDP's output, expenditure and income-based measures. They added detail about the impact of the recession on different parts of the economy, and gave figures on profits and investment for the depressed corporate sector.

Real consumer spending rose by 0.4 per cent over the quarter, reflecting the rush to boy durable goods before the April 1 rise in VAT and the 3.6 per cent surge in March retail sales volumes.

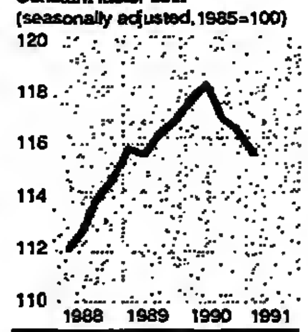
Spending on vehicles, however, fell by 1.9 per ceot over the quarter and by 19 per cent compared with the same quarter last year.

The Gulf war distorted the figures. It helped to trigger an annual 4 per cent first quarter decline in transport and communication services.

Service-sector output was 1.2 per cent lower in the first quarter than in the same quarter of last year – the first annual rate of decline in this recession.

UK GDP

Constant factor cost (seasonally adjusted, 1985=100)



Though the GDP fall was the third in a row, it was smaller than the 1.4 per cent and 0.8 per cent declines in the third and fourth quarters respectively.

Other highlights of the national accounts were:

- A 13 per cent drop in gross trading profits of companies and public corporations compared with the same quarter last year.
- Continued growth in average earnings that pushed up income from employment 1 per cent over the quarter.
- A quarterly 1.1 per cent increase in the GDP deflator - a good measure of domestically-generated inflation. This increased by an annual 7.6 per cent, after an annual 8.8 per cent in the fourth quarter.

The CSO said that once oil and gas production was excluded from the figures, economic activity declined "at the same rate" as in the previous two quarters. But it pointed out that output levels in this recession had not fallen so sharply as in the recession of the early 1980s.

Mr Gordon Brown, trade and industry spokesman for the opposition Labour party, said the figures showed the recession hitting every part of the ecooomy, with manufacturing down 5 per cent on a year ago, and distributive trades 2 per ceot.

"The figures show little evidence of the investment-led, iodustry-led or export-led growth essential for the long term," he said.

Separation of mail service to cost £10m

By Roland Rudd

FIRST and second class mail services could be separated at a cost of around £10m and would enable ministers to abolish the Royal Mail's monopoly on first class letters, a government-commissioned report into the Post Office shows.

The Post Office, at the behest of the Department of Trade and Industry, asked Ernst and Young, the auditor, to draw up a blueprint on how it could eliminate the cross-subsidy between first and second class letters.

Ministers wanted to know whether it was possible to separate the two services. The confidential report, which has been sent to the DTI, shows that the radical move is practically and financially feasible.

The Post Office has a monopoly on all letters under £1. Separating the two services would allow the government to open up first class mail to direct competition from private courier firms by reducing the letters monopoly from £1 to about 25p.

Such a move would prove controversial since the Post Office, if stripped of its monopoly for first class letters, would only be able to guarantee a national letter service for second class mail.

While the price of a first class stamp, which accounts for 40 per cent of all letters, would be expected to fall in urban areas it would almost certainly rise in rural communities.

Sir Bryan Nicholson, chairman of the Post Office, made it clear, however, that the report had been compiled at the government's instigation.

He said: "I would only need this report commercially if the ground rules changed. Ministers wanted it so they could look at what they do about further liberalisation."

The Ernst and Young report recommends the establishment of a sorting system to sift through the 60m letters the Post Office receives each day to separate first and second class mail.

Sir Bryan admitted that there would be some difficulties in identifying the cross-subsidy between the two services. But he believes such a shake-up would be easier to complete than the Post Office's earlier transformation into three main business sectors: parcels, letters and counters.

Liverpool refuse workers 'to accept new pay offer'

By Ian Hamilton Fazey, Northern Correspondent

LIVERPOOL's refuse collectors are expected this morning to accept a new offer from the city council and immediately to start clearing 12,000 tons of rubbish from the streets and temporary tips in parks.

Mr John Walker, convenor of the GMB general workers union branch which represents the refuse workers, said last night he would recommend the offer, which provides extra opportunities to earn overtime and guarantees that bonuses will count towards redundancy payments.

Earlier, the 460 workers voted to return to normal, five-day working, but rejected the council's previous "final" offer because this threatened to remove bonuses of £61 a week from redundancy calculations if the men did not give in.

All the men will be made redundant at the end of July when Onyx, the French-owned waste disposal specialist, takes over rubbish collection, having won the contract under the government's new compulsory competitive tendering rules. Losing the previously consolidated bonuses from severance pay would have been worth up to £2,000 a man.

Under the deal, the 12,000-ton backlog has to be cleared by Friday week if the men are to qualify for a £150 bonus.

The deal is understood to involve up to two hours overtime a day, plus Saturday and Sunday shifts.

Council officers were also in negotiation last night with other town hall unions to try and match as many job losses as possible to vacancies.

The unions have been staging a series of industrial actions against council plans to axe 1,000 jobs to reduce overstaffing. However talks have prevented escalation.

Kinnock looks both Euro-ways

By Quentin Peel in Bonn

MR Neil Kinnock, leader of the British Labour party, visited Bonn yesterday.

He talked with sympathy and understanding about the German view of European federalism, of reinforced political and monetary union: and then he sought, ever so carefully, to distance himself from it.

Federalism, he declared, was not all bad. It was just bad tha way it was understood back in Britain. So perhaps it would be better not to use the word at all.

As for the sternly independent German Bundesbank being a model for a future European central bank, that was fine too - because it was not really as independent as it sought to make out. Any future central banks must be accountable to elected governments too, he said.

His visit was a studied exercise in demonstrating the Labour party's worthy role as a future British government and interlocutor of the Bonn regime.

The result was that Mr Kinnock, emerging from talks with Chancellor Helmut Kohl and Mr Hans-Dietrich Genscher, the foreign minister, managed to assume a Euro-role almost indistinguishable from that of Mr John Major, the UK prime minister.

Major issues warning on 'federal' goal for Europe

By Philip Stephens, Political Editor

MR JOHN Major, the prime minister, will today warn Mr Jacqnes Santar that Britain will not allow the Luxembourg presidency of the European Community to bounce the government into acceptance of a "federal" destination for Europe.

His talks with the Luxembourg prime minister will be followed by a determined effort tomorrow by Mr Douglas Hurd, the foreign secretary, to reunite the Conservative party behind a positive but pragmatic approach to European integration.

Nervousoess among Tory MPs that the approach to the Luxembourg summit on Friday could re-open internal divisions over Europe was heightened yesterday when Mrs Margaret Thatcher recurded a lengthy interview for US television.

It is thought, however, that the former prime minister focused her comments on her long-term vision of a greatly-enlarged Europe with strong links to the US rather than on the immediate issues facing the government.

Mrs Thatcher is understood to have been dismayed by the madia reaction to her comments in the US last week which were taken as a direct challenge to the Mr Major.

John Major: will not he hounced into acceptance

As a result sba went out of her way during the latest interview - to be shown tomorrow on a satellite television channel - to avoid a detailed discussion of Mr Major's handling of negotiations on economic and monetary and on political union.

Despite the amhitions of some of Britain's partners – underlined yesterday during the Anglo-French summit in Dunkirk – Mr Hurd will use a set-piece House of Commons dsbate tomorrow to reassure Tory MPs that he is confident of a negotiated settlement at the end of this year.

The foreign secretary, who has consistently warned colleagues about the danger of creating internal divisions by fighting non-existent "demons", is expected to promise a constructive but robust approach at the Luxembourg summit.

The opposition parties, however, will seek to pre-empt his efforts by stepping np pressure on Mr Major during prime minister's questions today to repudiate Mrs Thatcher's views.

They will seek to capitalise also on the expectation that Mr Edward Heath – the party leader from the mid-1960s and early 1970s – who launched a vociferous attack on Mrs Thatcher last week, plans to speak in tomorrow's debate. She is unlikely, however, to follow his lead.

● Govarnment officials said yesterday it was "unlikely" Mr Major would be present in the Commons chamber for tomorrows debate on Europe.

Mr Donald Anderson, the opposition Labour party's foreign affairs spokesman, said his absence was a sign of indecisiveness.

Lloyds set to reveal first losses in 20 years

By Richard Lapper

THE NUMBER of legal disputes to recover losses at Lloyds of London could rise sharply over the next few weeks as the insurance market prepares later this week to announce its first overall losses for over 20 years.

It emerged yesterday that another group of Names, the individuals whosa wealth backs underwriting at the market, is considering taking legal action in a hid to recover losses.

The Names are among over 2,000 members of three syndicates managed hy Gooda Walker and related agencies and have suffered losses to date of over £180m from business written in 1988 and 1989. Syndicates are groups of Names. Agencies manage their affairs.

Over 2,000 of the 26,500 Names at Lloyd's have already taken legal action in six separate cases.

They allege that the negligence of their agents, and in one case the Lloyd's Corporation itself, is responsible for insurance losses dating back to 1980.

Although many of thase Names have been hit by US asbestosis and pollution losses, the Gooda Walker syndicates specialised in catastrophe business and were hard hit by the explosion ahoard tha Piper Alpba oil rig in July 1988 and a string of other disasters in 1989.

These catastropha losses have rocked the London insurance market and are one of the main reasons for losses of over £500m for 1988 which Lloyd's will announca tomorrow. Losses for 1989 could amount to over £1bn.

News of the potential action by the Gooda Walker Names follows the announcement this weekend hy the former Conservative MP Mr Tom Benyon, himself a Gooda Walker Name, of a new pressure group for Lloyd's Names, the Society of Names.

Tha Society said yesterday that it was offering Namea "more than tea and sympathy".

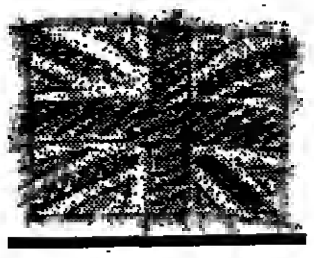
This is "action group – not a ahoulder to cry on," a spokesman added, although he denied any criticism of the approach of the Association of Lloyd's Members, the organisation which represents over 9,000 Names.

The ALM has recently welcomed the estahlishment hy Lloyd's of improved arbitration procedures.

Mr Tom Benyon, the former Conservative MP, advised Gooda Walker Names that any attempt to settle grievances within new arbitration procedures haing developed by Lloyd's "would be in vain."

According to Mr Alfred Doll-Steinberg, the chairman of the Gooda Walker Names committee and a founder member of SON: "The ALM is doing a good joh but they are not a union for Names."

BRITAIN IN BRIEF



Chief of UK river agency to resign

The chief executive of the National Rivers Authority, which claims to be the strongest environmental protection agency in Europe, has resigned.

A statement said Mr John Bowman, chief executive since the authority was launched in September 1989, was leaving hy mutual agreement.

"Because of shortcomings in internal management arrangements, it has been agreed hy both Mr Bowman and the NRA that at this stage in the organisation's development the interests of both parties would be best served by a change at the top," the statement said.

Liberal warning on defence

Sir David Steel, foreign affairs spokesman of the Liberal Democrats warned that obstruction of a European security and defence policy would hamper the common security of the region.

Britain has to think of its security in European, not national, terms and abandon the idea that the country was "special", Sir David told an audience in Norway. There had to be planning for the eventual withdrawal of US troops.

Contract for turbine group

European Gas Turbine Company, part of the Anglo-French GEC Alsthom heavy engineering group, has been awarded a £8m contract to supply three gas turbine generator sets for a big oil refinery near Milford Haven, Wales.

Ulster talks under stress

Inter-party talks on Northern Ireland's political future continued in Belfast against a background of a warning from unionists that next month's planned meeting of the Anglo-Irish Conference will effectively end the current talks.

The Democratic Unionist Party was adamant that the shutters would be pulled down on the whole process if British and Irish ministers pressed ahead with the meeting on July 16.

The Rev Ian Paisley, leader of the Democratic Unionists, has suggested stepping-up work schedules to six days a week in an effort to avoid a potential crisis.

Daiwa wins HQ clearance

Daiwa, the Japanese securities house, won clearance to begin construction of its new European headquarters in London following a ruling by the Department of the Environment (DoE).

Construction had been delayed by the decision to "list" a telephone exchange on the proposed site as a historic structure.

The DoE, however, has given permission for the demolition of the old exchange, allowing construction to begin on Daiwa's new office building at London Wall in the City of London.

Labour avoids wage assurance

Mr Tony Blair, the opposition Labour party's employment secretary, has refused to give any commitment on tha timing of Labour's commitment to increase a national minimum wage from half average male earnings, to two-thirds.

"We don't have an optimum timescale," he said at a House of Commons press conference. "There are other countries that apply two-thirds.

"Over time we want to move to it, but we've made it absolutely clear that it must depend on the circumstances of the economy."

He also rejected the Conservative party's estimate that introducing a minimum wage would cost government £1.5bn.

Wimbledon washed out: a waitress clears tables at the rainswept All England Lawn Tennis Club in south-west London. The opening day's play was abandoned, the first time since 1987.

Joint bid for London link

Cementation, the construction arm of Trafalgar House the UK engineering, property, shipping and hotels group, has formed a joint venture with Nishimatsu Construction of Japan and Edmund Nuttall a subsidiary of Hollandsche Beton Groep of Holland to bid for the £1.7bn London East/West cross rail route.

Cemeteries bought for 15p

A London council plans to buy back three cemeteries it sold for 15p four years ago in a deal the authority's Tory leader now admits should never have taken place.

The Labour opposition on Westminster council attacked the decision saying it would cost £2.5m. The sales were last year called "contrary to law" by the London District Auditor.

£3.7m loss for festival

The 1990 National Garden Festival in Gateshead, north-east England, made a loss of £3.7m despite attracting almost £22m in sponsorship from 300 companies. The loss will be borne by the council.

Challenge to BR rebuffed

A challenge by the Central Transport Consultative Committee, the passengers' watchdog, over British Rail's right to cut the number of trains on government-subsidised lines has been rebuffed by the Department of Transport.

The department says it believes BR is within its rights because the cuts have been more than outweighed by increases in train-miles elsewhere on the passenger railway system.

FT LAW REPORTS

Cash found in safe goes back to lenders

STANLAKE HOLDINGS LTD AND OTHERS v TROPICAL CAPITAL INVESTMENT LTD
Court of Appeal
(Lord Justice Parker, Lord Justice Taylor and Sir Roger Ormrod):
May 24 1991

MONEY LENT on the security of fraudulent undertakings for a particular purpose and deposited in the safe of the fraudster's innocent and unknowing employer, is recoverable by the lender if that purpose fails, and is not available to satisfy judgment debts owed by the fraudster to other creditors.

The Court of Appeal so held when dismissing an appeal by the defendant, Tropical Capital Investment Co Ltd, from the *decision of Judge Hammerton* QC sitting as a deputy High Court judge, that the three plaintiffs, Stanlake Holdings Ltd, Minford Properties Ltd, and Ealing Properties Ltd, were entitled to £55,000 cash found in a safe at a solicitor's office.

LORD JUSTICE TAYLOR said that before 1985 Mr Kenneth Emmanuel,a solicitor, gave unauthorised undertakings on his employers' behalf to persons lending money to a Mr Ali Soubhi Hammoud, with whom he was fraudulently associated.

He was dismissed.

In 1985 he was employed by Mr Ivor Levy, sole practitioner in Ivor Levy & Co.

At the end of August brokers were approached to obtain a loan for Mr Hammoud.

The brokers went to a business associate, a Mr David Leon, who controlled a number of companies, including the three plaintiffs, Stanlake, Minford and Ealing.

They drew up a memorandum dated September 2 1985 addressed to Mr Leon confirming the details of the proposed loan. The memorandum named the brokers as borrowers of £70,000 secured by Ivor Levy and Co. It stated "The funds are required for an off-shore client who wishes to remain nameless, to assist him with a deal in the Ivory Coast for tyres."

Also on September 2, Mr Emmanuel drafted and signed an undertaking to pay the £70,000, on his employer's notepaper addressed to Ealing and Stanlake.

Against that undertaking the money was paid on September 3 by two cheques for £35,000 each, one from Stanlake and one from Minford.

The brokers' evidence was that the arrangement was that they were to obtain the undertaking from Mr Emmanuel, take it to Mr Leon, and receive the cheque payable to them, to be disbursed to the client in cash.

They said they were asked by Mr Emmanuel to arrange speedy clearance of the cheque because the cash was required urgently, "since they were going abroad to Casablanca for a transaction".

Telegraphic clearance between Mr Leon's and the brokers' banks was arranged. On the same day the brokers drew out £67,750 in bundles of £50 notes and handed it over to Mr Emmanuel and Mr Hammoud.

Mr Emmanuel and Mr Hammond agreed that £55,000 should ba set aside against plans to go to Casablanca. The balance was taken by Mr Hammoud.

The £55,000 was placed by Mr Emmanuel in the safe at Ivor Levy & Co's Harrow office.

Next day Mr Levy questioned Mr Emmanuel, who admitted giving undertakings without anthority and was summarily dismissed.

Mr Levy then discovered the £55,000. He had no claim to it and started interpleader proceedings. An issue was ordered to be tried as to the ownership of the money, between the three plaintiffs and Tropical.

Tropical's interest derived from the fact that on April 25 1984 it had obtained judgment by default in an action against Mr Hammoud for £525,517. On October 19 1987 it obtained a garnishee order nisi against Ivor Levy & Co to answer the judgmant against Mr Hammoud.

Mr Hammoud and Mr Emmanuel had both been convicted of obtaining property by deception and were sentenced to imprisonment.

The judge in the present proceedings found that Mr Hammoud *and Mr Emmanuel had* acted fraudulently throughout. He held that the loan was made to Mr Hammoud; that the fraudulent undertaking induced the plaintiffs to make the loan and was part of the same transaction; and that the transaction was therefore void.

He concluded that the £55,000 remained the property of the plaintiffs, who had used the brokers simply as their agent.

Mr Nugee for Tropical submitted first that the loan was not made to Mr Hammoud, but to the brokers by a separate transaction, and could not be recovered by the plaintiffs.

The memorandum stated "the funds are required for an off-shore client who wishes to remain nameless". It was common ground that the brokers were truthful and had acted honestly.There was ample credible evidence to justify the judge's finding that the brokers were merely an agent or conduit through which the loan was made to Mr Hammoud.

Mr Nugee's first submission was rejected.

His second argument, on the assumption that the loan was made to Mr Hammoud, was that the transaction was an ordinary loan contract. He said the undertaking was a collateral arrangement and its frauduleot nature did not wholly vitiate the contract.

He said Levy & Co was hold*ing the cash for Mr Hammoud*, and its obligation to pay it to Mr Hammoud amounted to a debt capable of being attached in garnishee proceedings.

The money consisted of the proceeds of fraud. It would be repugnant to public policy and common sense if such proceeds were *owed as a debt to the* fraudster. It was also contrary to law see *Jervis v Peel [1968] 1 TLR 306*).

If the money sought to be recovered was the product of fraud, there was in law no debt which could be attached.

Mr Nugee submitted that the giving of the undertaking was within the scope of Mr Emmanuel's ostensible authority as a solicitor ln cbarge of hia employer'a Harrow office.

Mr Emmanuel had no anthority to give the undertaking, as he well knew. He therefore acted fraudulently and it was his fraudulent instrument which induced the plaintiffs to part with the monies. They were on any view the proceeds of fraud.

Accordingly, there was no attachable debt to *Mr Hammoud*, and Tropical's claim must fail.

The plaintiffs were entitled in law to recover the money.

Where money was deposited or lent for a specific purpose which failed, it was subject to a trust to repay it to the depositor or lender.

In *Stumore o Campbell [1891] 1 QB 314,316* Lord Esher said *that where money was placed* in the hands of solicitors for a particular purpose, a trust existed so long as that purpose existed. He said the result of failure of that purpose was that "another trust arose immediately to pay back the money to the person who gave it".

That the same principle applied where a loan was made for a specific purpose was clearly stated in *Chitty on Contracts 26th ed. para 3585*, which was supported by *Quistclose [1968] 1 Ch 540,552.*

Here the loan was requested and made for the specific purpose of "assisting the client with a deal in the Ivory Coast for tyres".

That purpose was expressly spelt out in the memorandum.

Furthermore, the urgent and onusual measures taken to effect swift clearance of the cheques were explained to Mr Leon and agreed by him specifically on the basis of the stated purpose of the loan, and the imminence of the trip to Casablanca en route to effecting *that* purpose.

Clearly the purpose failed and in those circumstances the money was held in trust for the plaintiffs who had lent it for that purpose. Accordingly, the plaintiffs were entitled to recover the £55,000. The appeal was dismissed.

LORD JUSTICE PARKER agreeing that the appeal should be dismissed, said that the *purpose of the loan having* failed, the monies became at once repayable to the plaintiffs. Mr Nugee said that as there was no express stipulation to that effect the result did not follow.

That was not accepted. As a matter of construction or by *way of implied term there was* such a stipulation. The plaintiffs had a clear right to the money.

SIR ROGER ORMROD also agreeing that tbe appeal should be dismissed, said that the broad justice of the case was in the plaintiffs' favour. Of the two alternative routes to give effect to it he preferred the trust line of argumeot suggested by Lord Justice Taylor to Lord Justice Parker's implied term.

For Tropical: Christopher Nugee (William Stockler & Co).
For Stanlake: Anthony Nicholson (Davis Hanson).

Rachel Davies
Barrister

In *Irish Aerospace (Belgium) NV, FT June 19,* connsel included Stuart Isaacs QC for Eurocontrol, and Peter Havey, not Peter Harvey, for the CAA.

Entrepreneurialism at the grass roots

Charles Batchelor checks up on the daily experiences of a small business manager at a local Lloyds branch

Banks in Britain have had to face serious criticism in recent weeks over the way they treat small business customers. In particular they have been taken to task for raising their interest charges at a time when base rates have been coming down.

The chief executives of the big banks and their small business critics have both had their say. But what is life like for the people in the middle, the bank managers dealing on a daily basis with small business customers?

Paul Boynton is an assistant manager in charge of the Small Business Centre at Lloyds Bank's busy Hammersmith Broadway branch in west London. He started specialising in this field two years ago after undergoing a course to train staff in how to handle small business customers. Now aged 33, Boynton has been with the bank since he was 16.

He has just over 200 customers on his books, mostly retailers or in the service sector. He deals with their personal as well as their business accounts.

"Small business centre" is a slightly optimistic title for an operation which comprises two desks at the back of the cramped main banking hall for Boynton and his assistant, Richard Hurdle. Interviews are carried out in the bank lobby in a partitioned section no bigger than a large wardrobe. Boynton's conditions of work are probably as spartan as those of many customers.

One of his first tasks each morning is to check his "out of order" list, customers who have run up an unauthorised overdraft or who have exceeded an agreed overdraft. The list is updated daily and has grown to an average of 2½ pages from the 1¼ pages typical in more buoyant times.

Whether Boynton allows a customer to go into the red temporarily depends on how well he knows the business. "I have to decide whether to send a letter to the customer telling him he has exceeded his limits or whether to return the cheque," he says. "I get nervous when I don't hear from people."

One long-standing customer with a previously good record has fallen behind with two instalments of a loan taken out to finance a second business.

Boynton has written saying he must not miss any further payments. "If I don't hear by early next week, I will write to ask for repayment of the loan, which I guess he can't pay."

Paul Boynton: "I get nervous when I don't hear from people"

Colin Beere

With the out-of-order list cleared, Boynton prepares himself for a meeting with a self-employed client who has gone above his overdraft limit. Boynton has already made one attempt to sort out the customer's finances, consolidating an overdraft into a long-term loan and a smaller overdraft but the customer has been unable to keep pace.

Squeezed into the small interview room the customer explains his predicament. He is attempting to pay off back tax while at the same time keeping up sizeable mortgage payments. Now, he is planning to become a full-time student. Lloyds has taken security on the customer's home, but even if he can sell it in time to take up his college course, it is likely there will be a shortfall of £2,000-£3,000.

In this instance Boynton is willing to give the customer time to sort out his affairs but if he feels advantage is being taken of the bank, he will take a tougher line.

One business customer has made a habit of overshooting agreed overdraft limits and at one stage £20,000 of the bank's money was at risk. The customer refused to give the bank security over her home but was persuaded to raise funds from a family trust to pay off the overdraft. She then attempted to negotiate a new overdraft facility but Boynton, in consultation with Bob Brazier, manager of the Hammersmith branch, had had enough and refused. That customer is now in the process of moving her account to another bank.

While Boynton has been dealing with this, Richard Hurdle has been going through customers' accounts to check the level of charges the bank is making. Some small business owners have complained that their banks make arbitrary increases but Boynton says any increase he makes is negotiated with the customer.

The Hammersmith branch has increased interest charges to "one or two" customers because the risks of their business have increased but this only happens when customers negotiate a new facility, Boynton says. All Lloyds business customers have, however, been put on to what it calls its "managed rate". This is intended to reduce the number of times rates are changed but follows the general trend of base rates. Lloyds' decision to introduce managed rates at a time of falling base rates has provoked criticism from some of its customers, however.

Boynton says he does not believe most of his customers' businesses would be adversely affected by changes in the rate of interest charges. Far more important to the health of a business is the speed with which it collects its bills. Many complain about late payments but few are prepared to do anything about it, he says.

For his part, Boynton would like more regular financial information from his customers. He estimates that only half a dozen provide him with monthly figures though he would be happy with quarterly data from the majority of his clients. "Many do not know what their turnover is or in some cases their break-even point," he says.

After slipping out for lunch, a sandwich from a nearby kiosk, Boynton prepares himself for a meeting with a young businessman who plans to set up a delivery and laundering service for re-usable terry nappies. The businessman has provided a 30-page business plan but it is not clear how much of his own capital he is prepared to put into the business. He also intends to pay himself £1,500 a month salary which, to Boynton, appears a lot for a new business.

Back in the meeting room, the businessman explains his plans. It emerges that he plans to put in £10,000 of the £30,000 needed and he has another investor who could provide funds. How much would the bank be prepared to lend? Boynton will consider providing up to £15,000 but would feel happier putting up £10,000 of which £7,000 would be covered by the government's Loan Guarantee Scheme. Boynton wants to do more research before he can commit himself to a loan.

After the meeting he discusses the proposition with Brazier, who says a plus point is the fact that the entrepreneur is putting a large sum of his own into the venture. But the entrepreneur does not own his own home so the bank could not take out security on his property. The project – which might be more suited to venture capital finance if funds were available in such small amounts - appears to put strain on the bank's system. Both men appear happier funding more conventional ventures.

Why is the bank so cautious? "Banks are not there to take risks," says Brazier. "We are there to provide a service. Our customers make a big profit on a deal but expect us to put up the money for very low rates of interest. Don't forget that the interest we charge is not all profit. We have to pay our depositors."

The limited upside on any loan and the prospect that it all might be lost if the venture fails explains the banks' attention to collateral. The knowledge that his bonuses, salary increases and prospects depend on not running up too many bad loans is also a powerful influence on the bank manager's thinking. Unlike the venture capitalist he cannot compensate for his losses by picking a big winner.

A day spent in the Hammersmith branch does not leave the impression of a bank intent on cracking the whip over its small business customers. The picture is rather one of an organisation attempting to balance the interests of depositors and borrowers when information on the latter is fragmentary and a lot has to be taken on trust. For all the talk of "enterprise" which dominated the 1980s, a really radical shift in the way bank managers respond to a business proposition has yet to happen.

All that clusters may be gold

Charles Batchelor explains a capital idea

The creation of industrial groupings or "strategic clusters" of otherwise isolated small companies could provide an important new outlet for the energies and the expertise of the European venture capital industry.

This would encourage the formation of more soundly based small business groupings able to take advantage of the single European market, Diederik Heyning, managing director of Gilde Investment Funds, a Dutch venture capital company, told the European Venture Capital Association's annual symposium in Stockholm earlier this month.

Companies suited to this treatment should be linked by the same area of activity but should not be direct competitors. Companies in the same field but active in discrete geographical markets might also fit together. The initiative for the creation of the cluster would lie with the venture capitalist and he would take a majority stake, in contrast to normal investment policy.

The advantage of such clusters is that they can afford to buy the services of specialist managers – a luxury not available to the component companies individually. Clusters should also be able to raise finance on more favourable terms.

The advantage to the venture capitalist is that relatively few venture firms are interested in or capable of doing this type of deal so competition should be less fierce.

However, taking majority shareholdings in such companies is more risky than spreading investments over a larger number of businesses. The investor must also take care that, in the event of failure, creditors cannot seek redress from the venture capitalist. To avoid problems the investor should restrict himself to taking strategic rather than operational decisions, Heyning said.

While not becoming too involved in day-to-day operations, the venture capitalist must be able to influence the general direction of the cluster.

In addition, though, a representative of the group should join the operating companies for their first six months in the cluster to get to know how the business functions and to impart the group culture.

One cluster company backed by Gilde was Axxio, which makes tools, moulds and parts for manufacturers and users of metal or plastic components. Gilde bought two businesses in early 1989 from a property company disposing of non-core activities and added a third business in mid-1990.

The strategic plan calls for Axxio's turnover to grow from Fl 40m (£12m) in 1990 to between Fl 150m and Fl 250m – from perhaps eight component companies – by 1993. Gilde's original holding of 100 per cent has been reduced to 50 per cent following a private placement late last year which valued the shares at three times cost.

Solicitous tips on using lawyers

How do you find a lawyer to help you get started in business or to resolve a problem which arises when you are already trading?

Although to the outsider every law firm looks the same, different firms specialise in different areas. It is no good going to a high street practice specialising in divorce for start-up help, nor will the new business want to go to an expensive City firm.

The Barclays Guide to Law for the Small Business* provides useful advice in areas such as choosing a business name, buying or leasing commercial premises and drawing up contracts. It also gives pointers to dealing with the legal profession.

The Law Society does not recommend solicitors or even advise on their specialisations but it will provide a list of participants in its Lawyers for Enterprise scheme through which a free initial consultation is available. Friends in your line of business, your bank manager or your trade association may be able to recommend a solicitor who knows your field.

In the early stages a more general solicitor able to advise on all aspects of your business may be a more cost-effective option than a firm with specialist departments which will each bill you separately.

Do not be afraid to ask what the cost will be. Find out the hourly charge, which may vary from £250 an hour plus VAT in the City to £50 an hour for an assistant solicitor in a provincial firm. Remember though that the cheapest may not be the most cost-effective since an inexperienced solicitor may take longer than an expert on a simple job.

Nor is the hourly fee the only basis for charging. Solicitors are allowed to charge a "fair and reasonable" sum taking into account the complexity of the matter, the skill and labour involved, the number of documents consulted and amount of money involved.

Ask if the time charge is the only basis for charging. Will the solicitor give an estimate? If so, it is not binding unless both the client and the solicitor sign it. Such arrangements are rare, however.

Certain jobs may be charged on a fee scale. The most important for the new business owner applies to commercial leases because the tenant is normally forced to pay the landlord's solicitor's costs as well as his own.

Many solicitors have a reputation for billing months or even years after work has been completed. This may be welcome to the new business which is strapped for cash in its early stages but unless you keep a record of the likely fee you could be hit by a bill two years later when you are not expecting it. If you want to be billed, say, quarterly, make this clear.

When instructing a solicitor remember he or she is not a clairvoyant. Some clients expect their solicitor to grasp the details of a complex case in a matter of moments. Give clear, well-organised instructions. If you go to a solicitor about a long-running dispute arrange all the documents in date order and provide a synopsis of key points at the front. If you dump a pile of unsorted papers on his desk he will spend time, at your expense, sorting them out.

By Stephen Lloyd. Published by Blackwell. Tel 0865 791100. 218 pages. £6.95.

Charles Batchelor

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COMPANY WITH OUTWORKERS

Client company wishes to contact any business which has a Home Based Workforce of at least 50 people. They may be either employees or self-employed. Client wishes either to acquire such a business or subcontract work through it.

D.M.C.F. Ltd.,
9 High Street,
St. Martins, Stamford,
PE9 2LF. Tel: 0780 63323

BUSINESS WANTED

We are a Stainless Steel Processing Company, looking to acquire other companies with similar product ranges, or in a related operation, with a turnover of not less than £1M per annum.

Write Box H8862, Financial Times, One Southwark Bridge, LONDON, SE1 9HL

WANTED: MEDICAL COMPANY

We wish to procure by outright sale or merger a medical company with a product line which is established, approved, protected and manufactured either in house or by sub contract.

Please reply with your proposals to: Mr. D.W. Morris, Magill Medical Ltd., Daventry NN11 6QG Fax: 0327-60656

BUSINESS WANTED

We are a Racking and Storage Systems Company looking to acquire other companies with similar product ranges, or in a related operation, with a turnover of not less than £2M per annum.

Write to Box No: H8863 Financial Times, One Southwark Bridge, London SE1 9HL

COMPUTER PROCESSING

We are interested in acquiring ICL and IBM Processing Operations.

Please contact:
Paul Sellars
Chief Executive
ACTive Business Services
Bridge House
Bridge Street
SHEFFIELD S3 8NS
TEL NO: (0742) 752848

MIDLANDS BUSINESSMAN

marketing bias, with capital, looking to purchase company, ideally, owner retiring or company seeking new initiative.

Write to Box H8846, Financial Times, One Southwark Bridge, London SE1 9HL

CONFIDENTIAL AGENT will act on behalf of individuals or organisations in matters concerning acquisitions, disposals etc. Experienced in negotiating at all levels. Absolute confidentiality guaranteed. Write to box H8827, Financial Times, One Southwark Bridge, London SE1 9HL

MANAGEMENT EDUCATION COURSES

IMPERIAL COLLEGE

PART-TIME EXECUTIVE MBA

Applications are invited for the Imperial College MBA Programme. Aimed at practising managers in the age range mid 20s to early 40s, this three-year programme is designed to enhance the managerial ability of those expecting to enter, or newly appointed to, senior management positions. The programme begins with the normal functional emphasis of most MBA courses but then offers the opportunity to specialise in one of five areas – Management of Innovation, Management of New Ventures, Management Science, Project Management and Finance.

The programme is taught over three residential weeks and 14 separate days (alternate Fridays during term-time) for each of the three years.

For more information contact the Course Administrator, Jackie Sheehan, at The Management School, Imperial College, 53 Prince's Gate, London SW7 2PG. Tel. 071-589 5111 Ext. 7027.

BUSINESSES FOR SALE

DRUCE

Hotels & Leisure International

ON THE INSTRUCTIONS OF D WATERHOUSE AND E KLEMPKA OF CORK GULLY, JOINT ADMINISTRATIVE RECEIVERS OF HARVEY INGHAM'S FLYING HORSE COUNTRY HOTEL LIMITED

THE FLYING HORSE COUNTRY HOTEL, SCAPEGOAT HILL, HUDDERSFIELD, WEST YORKSHIRE

Quality purpose built Hotel 5 miles West of Huddersfield, 1.5 miles from M62 roughly halfway between Leeds and Manchester.

* 33 Letting Rooms with en suite Bathrooms * 90 cover Restaurant * Spacious Public Lounge Bar * Private Lounge/Meeting Room (20) * Air Conditioned Function Suite (150) * Extensive Stores, Office etc * Large Car Park and Grounds * First year sales of £481,000 net of VAT 9/3/90 to 31/3/91

FREEHOLD SUBSTANTIAL OFFERS INVITED Ref: H1282/FT

Contact Leeds (0532) 461144

ON THE INSTRUCTIONS OF THE JOINT ADMINISTRATIVE RECEIVERS MR S TAYLOR AND MR J POWELL OF CORK GULLY

THE ADMIRAL RODNEY HOTEL, HORNCASTLE, LINCOLNSHIRE

LINCOLN - 21 miles SKEGNESS - 25 miles WOODHALL SPA - 5 miles

Prominently located in town centre with extensive main street frontage.

Superbly refurbished and extensively enlarged listed premises providing deceptively spacious character accommodation planned round an attractive glazed courtyard. Opened December 1989.

* 32 quality Letting Bedrooms all with en suite bathrooms (including 3 suites) * Courtyard Lounge, Bar & Restaurant (capacity 250 with 60 covers) * Unique Public Bar (50 covers) * Restaurant (40 covers) * 2 Function/Meeting Rooms (140 and 40) * Offices/Stores etc * Central Heating and Double Glazing * Large Private Car Park

OFFERS SOUGHT FOR FREEHOLD Ref. H1294/FT

Contact Leeds (0532) 461144

ON THE INSTRUCTIONS B.D. HARDING AND I.D. BOND OF CORK GULLY JOINT ADMINISTRATIVE RECEIVERS OF CERTAIN PROPERTIES OF CARTEL PROPERTIES LIMITED

THE WAYLANDS, WEELEY, CLACTON ON SEA, ESSEX

Well known function based business occupying prominent location.

* Public Bar * Restaurant * Function/Meeting Room * Further self-contained Function suite 100+ * Commercial Kitchens * Grounds circa 1 acre to include 1 building plot * 4 bed Private Accommodation

FREEHOLD £225,000 REF LO5778R

Contact London 071 722 9777

ON THE INSTRUCTIONS OF THE JOINT ADMINISTRATIVE RECEIVERS MR A R STANWAY AND MR A P WHALLEY OF MESSRS CORK GULLY

THE GARDEN VIEW HOTEL, HIGHGATE, LONDON, N6

* A Country Hotel in London * Prime location close to A1 * 35 Letting Bedrooms (most en-suite) * Terrace Bar * Banqueting Suite (140+) * Restaurant * Car Parking * Established Commercial Trade * T/O circa £440,000 last 12 months.

OFFERS INVITED FOR THE FREEHOLD REF: 286/FT

Contact London 071 722 4454

ON THE INSTRUCTIONS OF THE JOINT ADMINISTRATIVE RECEIVERS MR A R STANWAY AND MR A P WHALLEY OF MESSRS CORK GULLY

HABERLINS HOTEL, NR. BERKHAMSTED, BUCKS

* Imposing country Hotel * Situated on the A41 and close to M1, M25, M40 * 15 Letting Bedrooms (7 en-suite) * Set in approximately 1 acre * Ample Car Parking

OFFERS INVITED FOR THE FREEHOLD REF: 285/FT

Contact London 071 722 4454

DRUCE Hotels & Leisure International

Leeds Office, Quebec House, Quebec St., Leeds LS1 2HA

London Office, 151, 8 Park Road, London NW8 7HX

Cork Gully

BIRMINGHAM · BRISTOL · CHICHESTER · LEEDS · LONDON

UPVC Conservatory and Window Sales and Manufacturing Division for sale by investment company

or opportunity for Joint Venture Partner.

Profit circa £400,000 p.a. excluding cost of premises and group service charge.

Business and production equipment suitable for re-location or premises available.

Manufactures and installs high quality UPVC products with sales by domestic salesforce plus sales to trade, Local Authorities and Government Departments. Opportunity to grow independently or would be complementary to an existing business.

For information please fax: 0384 377430 or write to Box H8851, Financial Times, One Southwark Bridge, London SE1 9HL

THE BRITISH INTERNAL COMBUSTION ENGINE RESEARCH INSTITUTE LIMITED

(In Administrative Receivership)

Engaged in research, design, development and testing of internal combustion engines, lubricants and fuels.

1990 turnover £3.0 million.

For sale by the Joint Administrative Receivers the business and assets including:-

- Leasehold premises in Slough, Berks
- 11 gasoline and 9 diesel tanks totalling 175,000 litres
- Purpose built fully equipped test cells
- Own products for bore scanning and wear measurement
- Blue chip customer base

Please contact:
John Hill
Joint Administrative Receiver
BDO Binder Hamlyn
20 Old Bailey, London EC4M 7BH
Telephone 071 489 6192
Fax 071 489 6295

BDO BINDER HAMLYN

Chartered Accountants

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Merlyn Foods Limited

(In Administrative Receivership)

The Administrative Receiver offers for sale the business and assets of a fully equipped manufacturer of chilled partly cooked potato chips.

- *Customer base including major UK food distributors and local authorities*
- *Modern leasehold factory unit and premises close to major roads*
- *Established 1987 and based in South Wales*

For further particulars please contact the Administrative Receiver, Jack Lewis, Ernst & Young, Pendragon House, Fitzalan Court, Cardiff CF2 1TE Telephone: (0222) 484641. Fax: (0222) 390565.

ERNST & YOUNG

Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

Touche Ross

Forest Group PLC

(In Administrative Receivership)

The Joint Administrative Receivers, N. R. Lyle and D. L. Morgan, offer for sale the business and assets of the above Group including:

Oakwood Analysis Centre Ltd

- ☐ Provider of environmental analysis services.
- ☐ Approximate annual turnover £750,000.
- ☐ Highly skilled staff.
- ☐ Contracts with blue chip customers.
- ☐ Depots at Romford, Essex and at West Bromwich.

Safety Industries (Oakwood) Ltd

- ☐ Supplier of safety equipment on hire.
- ☐ Sales of safety equipment & consumables mainly to the asbestos removal industry.
- ☐ Highly skilled staff.
- ☐ Facilities for maintenance of own and customers' plant.
- ☐ Approximate annual turnover £1.7 million.
- ☐ Depots at Romford, Essex and at West Bromwich.

Wyman Properties Ltd

- ☐ Substantial freehold premises in Romford comprising office, laboratory and warehousing facilities with planning permission for further office space.

For further information please contact Sandy Brown or Karen Silcock at the address below or at Romford. Tel: 04023 77701. Fax: 0-1023 84803.

Member DRT International

PO Box 810, Friary Court, 65 Crutched Friars, London EC3N 2NP. Tel: 071 936 3000. Fax: 071 480 6881.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

FOR SALE

Company established in 1974 supplying the full range of equipment furniture etc. to the catering and restaurant trades. Directors/proprietors wishing to retire are seeking a purchaser for their central London company. Asking price £650,000.

Principals only to write to Box H8812, Financial Times, One Southwark Bridge, LONDON, SE1 9HL

FOR SALE

Successful business operating outdoor game concept throughout Europe.

Please reply in writing to:
Chris Lowry, Baker Tilly,
2 Bloomsbury Street,
London WC1B 3ST

POLAND PRIVATISATION

The Ministry of Ownership Changes will offer for sale 77% of shares of Zywiec Brewery on July 1 1991

For information call: ACCESS Ltd Warsaw
Tel/Fax: 048 2 6593273
c/o Andrzej Szostak

ACCESS Ltd.

COMPULSORY ADMINISTRATIVE LIQUIDATION OF "UNIONE MILITARE" A JOINT-STOCK BUSINESS CO-OPERATIVE IN THE CONSUMER, CREDIT, ASSISTANCE AND SERVICES SECTORS INVITATION FOR TENDERS

The liquidators hereby announce that they have been authorised by the Ministry of Labour and Social Security to proceed with the sale of the above business by means of private negotiation.

The business consists of 15 shops located in Turin, Milan, La Spezia, Verona, Udine, Modena, Bologna, Florence, Rome (Tritone), Rome (Cecchignola), Naples, Bari, Taranto, Palermo and Cagliari, including good will.

The real estate located in Verona, Udine, Florence, Naples and Cagliari is owned by the business.

In a note dated 22.2.1991, the Ministry of Defence notified its readiness both to confirm, for the purchaser's benefit, the convention under which access is permitted to garrisons for the purpose of selling the goods (in due compliance with precautions imposed for security reasons) and also apply tax deductions to Ministry of Defence employees' salaries with regard to goods sold to them on hire purchase in U.M. shops.

An official appraisal was drawn up on 13.6.1990, according to which the value of the sale of the commercial activity, real estate, administrative authorizations and convention with the Ministry of Defence was estimated to total Lire 37,615 million.

Further information and draft tenders may be obtained either from the Liquidation Offices (Via Sante Bargellini, 4, 00157 Rome, tel 06/4393442, fax 06/432910) or from the office of Mr. Pietro Sembba, Attorney-at-law (Viale delle Milizie, 1, 00192 Rome, tel: 06/3215082, fax 06/3215078).

Tenders based on the aforesaid draft, accompanied by a deposit corresponding to 3% of the price offered, must be delivered to the Liquidation Offices (Saturdays excluded) no later than 26 July 1991 (between 9.00 a.m. and 1.00 p.m.)

Tenderers should note the following conditions: a) the Liquidators are not obliged to sell the aforesaid assets to the best tenderer, as their decision will, in any event, be subject to a positive assessment of the adequacy of the tenders in question; b) the sale is subject to authorisation on the part of the Ministry of Labour and Social Security after approval from the Supervisory Committee, and c) the tender and deposit will be tied up until relevant judgement is passed by the supervisory Authority.

THE LIQUIDATORS
Attorney-at-law DOMENICO RIZZO, Professor FRANCESCO VASSALLI and Senator SEBASTIANO VINCELLI

FOR SALE

NIELSEN PLANTS LTD

POT PLANT NURSERY

THE BEST REPUTATION IN THE U.K.

- Long established business with reputation for top quality.
- 16.000 m² of heated and benched glasshouses.
- All glasshouses equipped with tungsten lighting.
- 8.000 m² equipped with sodium lighting.
- The best producer in the country of Begonia and Hibiscus.
- The leading producer of mini-Christmas trees in pots.
- Capable of growing all kinds of pot plants in top quality.
- Annual turnover of £ 2,300,000.-
- Major supplier to multiple stores.
- Profitable for many years.
- Profit before taxes is more than 15% of asking price.

Please, contact:

PAGTER & PARTNERS INTERNATIONAL
Postbox 48 - 4670 AA Dinteloord - Holland
Tel: + 31 1672 2747 Fax: + 31 1672 3111

MARKETING AND BUSINESS CONSULTANTS
SPECIALISTS IN INTERNATIONAL AGRI-BUSINESS

VIDEPRO INTERNATIONAL LTD. (in liquidation)

HI-BEAM

The Liquidator offers for sale a business engaged in the manufacture of Data/Video Projection Systems and Hi Beam Videowalls. *The company has a modern production* development facility and an established international distribution network.

For further information contact:

William Horgan or
David Coyne
Arthur Andersen & Co.,
49 St. Stephen's Green,
Dublin 2.
Tel. (0001) 765821. Fax. (0001) 767821.

ARTHUR ANDERSEN
ARTHUR ANDERSEN & CO. S.C.

Plant Hire/Sales

The Administrative Receivers offer for sale the business and assets of Chris Evans Plant Sales Limited which has been established for seven years.

- *Main distributor for Kubota*
- *Leasehold premises in Crowthorne, Berkshire*
- *Turnover £1.5m*

For further details please contact Jason Elles, Administrative Receiver, Ernst & Young, Apex Plaza, Reading, Berkshire RG1 1YE. Telephone: 0734 500611. Fax: 0734 507744.

ERNST & YOUNG

Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

Midlands based Plastic Injection Moulding Company.

Turnover Around £1.5m p.a.

Long established company with prestigious customer base. Turnover includes substantial exports to the European Market.

The company operates a range of injection moulding machines extending from 15 to 300 tonnes together with associated finishing processes. Leasehold premises extend to 24,000 sq.ft. with room for expansion.

Ideal opportunity for a company seeking vertical integration or wishing to expand and diversify.

Write to Box H8842, Financial Times, One Southwark Bridge, London SE1 9HL.

Dried Fruit and Pulse Packing Business Humberside for sale T/O £1.5m

A Dent ACA
Macleod Ross & Co Ltd
21 Broadwall
London SE1 9PL
071-928 8966

Precision Sub Contract Machinists

Wakefield

The Joint Administrative Receivers offer for sale the business and assets of Oakleal Engineering Limited as a going concern.

Principal features include:

- Annual turnover approximately £0.5 million.
- Sub contract high volume machining facility with bias towards non standard fastenings and fittings.
- Extensive range of machines including CNC's and high speed Hex turning.
- Skilled and semi-skilled workforce.
- Established quality customer base with existing orders.
- Leasehold premises 16,000 sq ft with low rent.

For further information contact the Joint Administrative Receiver, Rodger Taylor, KPMG Peat Marwick, The Fountain Precinct, 1 Balm Green, Sheffield S1 3AF.
Tel: 0742 766789. Fax: 0742 766213.

KPMG Corporate Recovery

Engineering Plastics Company

Leicester

The Joint Administrative Receivers offer for sale as a going concern the business and assets of Granby Plastics Limited.

The company is involved in cast nylon products, machining, injection moulding, vacuum forming and machine fabrication.

Principal features include:-

- Turnover £750,000.
- Leasehold property 11,000 sq ft.
- 15 employees.
- Oil filled nylon products.

For further information contact the Joint Administrative Receiver, Myles Halley, KPMG Peat Marwick, Peat House, 1 Waterloo Way, Leicester, LE1 6LP.
Tel: 0533 471122. Fax: 0533 547626.

KPMG Corporate Recovery

Invest in success

Climat de France, one of Europe's key players in the 2 star hotel franchise market is coming to the UK. with 50 hotels being built over the next five years.

For a minimum investment of £600,000 you can either manage your own 50 to 100 bedroom business on a turnkey basis, or have it operated by Climat UK under a Management Agreement.

For more information on how Christie & Co, Corporate & Acquisition Division can provide assistance with site sourcing, acquisition and funding, contact Patrick Ryan London Office 071-799 2121, Ian Davie Edinburgh Office 031-557 6666, Colin Wellstead Leeds Office 0532 459667.

Hotel Climat

Chain of Hotels and Restaurants "Climat de France"

CHRISTIE & Co
CORPORATE & ACQUISITION

FOR SALE
BROADLY BASED RADIO COMMUNICATIONS CO.

With T/O for 1991 estimated at £1M, with well established exports, customers include Government and Industry, approved to AQAP 4, and CAA, potential in specialist radio contracts and avionics. Company occupies 6000 sq ft peppercorn rental near major international UK airport. Would consider separate sale of this lease - 16 years remaining.

JOBTEL Ltd, 10 Chimes Meadow, Southwell, NOTTS NG25 OGB.
Phone (0636) 815265 or Fax 815828

SOT HEALTH FOODS LIMITED GROUP (In Receivership)

ENTERPRISE

SOT Health Foods Limited (In Receivership)

The business and assets of SOT, wholesale distributor of OTC goods, are available for sale as a going concern.

- Annual sales over £50 million.
- Supplier to 2,300 independent chemists.
- High market share in the North West, Yorkshire, Midlands and South Wales.
- Operates single hub distribution centre from leasehold site in Tunstall, Stoke-on-Trent.
- Substantial fleet of delivery and trunking vehicles.
- Highly computerised stock system.
- Own label 'Enterprise' sales of £5 million per annum.
- Weekly personal representative calls and deliveries to all customers.
- Over 300 employees shared with other group companies.

Barclay & Sons Limited (In Receivership)

The business and assets of Barclay, wholesale distributor of ethical pharmaceutical products, are available for sale as a going concern.

- Operates from a leasehold site in Trentham, Stoke-on-Trent.
- Uses the SOT marketing and distribution network.
- Annual turnover of over £20 million.

Bodyline Health Foods Limited
(In Receivership)

The business and assets of Bodyline, wholesale distributor of health foods, are available for sale as a going concern.

- Operates from leasehold site at Talke, Stoke-on-Trent.
- Supplies health foods to chemists and health food shops in the local area.
- Annual turnover of £3 million.
- Wide range of products.

The Great American Drug Store Limited
(In Receivership)

The business and assets of this retailer of drugstore products are available for sale as a going concern.

- One retail outlet in Middlesbrough selling drugstore products.
- Current turnover of £15,000 per week.

Enquiries relating to all companies to: Tony Brereton, Price Waterhouse, York House, York Street, Manchester M2 4WS. Tel: 061-228 6541. Telex: 669591. Fax: 061-236 1268.

Price Waterhouse

COMPANIES FOR SALE/ INVESTMENT OPPORTUNITY

We have two small, early-stage companies for sale - annual turnovers approx. £200,000 p.a. and growing:-

- A company specialising in the commercial management of sports clubs with 4 existing clubs under contract and 3 in negotiation. Should be profitable from the forthcoming winter season.
  Price guide £50k - £100k.
- A catering company, now profitable, based in the Thames Valley.
  Price guide £30k - £50k.

These subsidiaries are now considered peripheral to their holding company's activities. Part purchase or joint venture options would also be considered.

Principals only please contact:

Milestone Services Limted
The Old Sawmills, Inkpen, Newbury, Berkshire, RG15 0EF
Tel: 04884 8862 Fax: 04884 8863
A Member of the Securities & Futures Authority

STRATHMORE HOTEL THE HOE, PLYMOUTH

55 en suite bedroom 3 star hotel. Sound year round trade. £130,635 profits on net T/O £565,260.

OFFERS AROUND £1.2M FREEHOLD NEARLY 15% RETURN

70 en suite bedroom 3 star hotel. 1.5 acres in thriving commercial and holiday town in Southwest. Extensive leisure complex. Expanding, well-balanced year round trade. £394,090 profits on net T/O £1,254,882 under management.

OFFERS OVER £2.65M FREEHOLD
TEL: (0285) 641642

Humberts

Spitbank Fort, The Solent, Hampshire

Situated in the Solent, approx 1 mile south of the entrance of Portsmouth Harbour. This 130 year old fort is currently run as a function room business with catering and bar facilities accommodating up to 200 people. Further development for an additional 2 floors and swimming pool has received planning consent.

Further details: Humberts, Bank House, Canute Road, Ocean Village, Southampton SO1 1AB Tel: (0705) 634744

Touche Ross

Barbarian Holdings Limited

Trading as: Barbarian Rugby Supplies, Jeff Squire Sports

Mike Rafter Sports & Leisure Limited
The Sports Warehouse Limited

(All in Administrative Receivership)

The Joint Administrative Receivers, Robert G. Ellis and Anthony M.D. Bird, offer for sale the goodwill and assets of the above businesses. The main features are:

- ☐ Manufacture, wholesale and retail of sportswear, T/o £2m p.a.
- ☐ Main suppliers to rugby unions, leading clubs and corporate bodies.
- ☐ Freehold premises in Cwmbran, S.Wales – 8,000 sq.ft. set in 2 acres, suitable for many purposes.
- ☐ Extensive stock of sportswear.
- ☐ Plant and machinery.

For further details, please contact Robert Ellis or Peter Engel at the address below:

Blenheim House, Fitzalan Court, Newport Road, Cardiff CF2 1TS.
Tel: 0222 481111. Fax: 0222 482615.
Authorised by the Institute of Chartered Accountants in England And Wales to carry on Investment Business.

Member DRT International

Touche Ross

Fabrics 2000 Limited

(In Administrative Receivership)

The Joint Administrative Receivers offer for sale the business and assets of this Hampshire based company.

- ☐ Converters of household furnishing fabrics and bedware, in-house labels and, subject to agreement, the Mary Quant label.
- ☐ Trading with major High Street stores and mail order companies.
- ☐ The company operates from substantial premises (6,000 sq.ft.) on an industrial estate near Winchester.
- ☐ Turnover approximately £2.5m.
- ☐ Extensive UK and significant European customer base.

For further particulars please contact the Joint Administrative Receiver, Harold Wilks at the address below, or Craig Aitchison on 0962 844114.

Carlton House, Carlton Place, Southampton SO1 2DZ.
Tel: 0703 334124. Fax: 0703 330724.
Authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

Member DRT International

Panacea Group Limited

incorporating

K B Distributors (Brighton) Ltd, A Yeates & Sons Ltd
Catercraft (Sussex) Ltd, Teba (Catering Equipment) Ltd

(In Administrative Receivership)

The Business and Assets of the above named Company and its subsidiaries are offered for sale as a going concern. The Group operates from 3 sites in Sussex and Hampshire as a catering equipment distributor. The assets comprise:-

- Leasehold premises in Brighton, Worthing and Bordon incorporating large showrooms.
- Turnover in excess of £3m.
- Established over 100yrs ago with a large household named customer list.
- An extensive stock range.
- The Company has a proven ability to plan and install complete food service operations.

For further information please contact the Joint Administrative Receivers, N J Vooght and J M Iredale at Cork Gully, 9 Greyfriars Road, Reading, Berks RG1 1JG Tel 0734 500336 Fax 0734 607700

Cork Gully is authorised in the name of Coopers & Lybrand Deloitte by the Institute of Chartered Accountants in England and Wales to carry on Investment Business

Cork Gully

OIL SERVICE INDUSTRY BUSINESS FOR SALE

We are retained by a Group to dispose of a non-core subsidiary, based in Aberdeen, which provides tubular rental and other related services to the offshore oil and gas industry.

The actual and forecast profitability before taxation in 1990 and 1991 is £204,000 and £320,000 respectively.

Details will be made available to disclosed principals on application to:-

Colin I Welsh
Partner
Rutherford Manson Dowds
Chartered Accountants
2 Queens Terrace
Aberdeen\
AB1 1XL
Telephone: 0224 625888

G B Caleva Limited

The directors offer for sale as a going concern this established company specialising in the design and manufacture of purpose-built process and quality control machinery for pharmaceutical and other industries. Turnover is approximately £500,000 per annum to a blue chip customer base. For further information please contact the directors at Butts Pond Industrial Estate, Sturminster Newton, Dorset. Tel: 0258 72742.

UK/US BUSINESS FOR SALE

a) UK- Producer of health food T.O. £1.8M (b) U.K. Cable harness/wiring assembler T.O. £1.7M (c) UK Specialist cable maker for telephones/instrument controls T.O. £4M (d) UK Manufacturer of automatic test software for printed circuit boards T.O. £1.7M (e) UK surface mount technology producing switches, relays, circuit assemblies T.O. £5M (f) UK Producer of subsystems, coils, inductors, l.v transformers T.O. £1.9M (g) US Producer of organic food T.O. $6M (h) US Producer of biotechnology products T.O. $5m (i) US MFG speciality kraft core material T.O. $21M.
Principals reply to Colechurch (UK) Ltd. Fax: 071-588 2718

FOR SALE
QUAKER HOUSE COLLIERY LTD
BILLINGE, WIGAN, GREATER MANCHESTER
(IN ADMINISTRATIVE RECEIVERSHIP)

The Administrative receivers offer for sale the business and assets of Quaker House Colliery Ltd.

Principals features include:

- Fully equipped private drift mine.
- Opencast potential.
- Planning consent for a new drift.

*For further information, please contact Richard Traynor or Gary Bell, of Buchler Phillips & Traynor, Blackfriars House, Parsonage, Manchester M3 2HR.
Telephone 061 839 0990.
Facsimile 061 832 7436.*

BUCHLER PHILLIPS & TRAYNOR

GLENWOOD (U.K.) Ltd

Has Good Profitable Companies available, mainly South of England based, which may be purchased in the following catagories:

- Engineering - Precision and Fabrication
- Printing/Greeting cards
- Computer Software
- Public and Private Transport
- Security Systems
- Flooring - Retail and Contracting

FAX on 0202 605339

FOR SALE

Company Which Has Developed Process For Litho Printing 3-D

substantial offers required for outright sale or will consider sale or sole European rights.

GR Print Consultants: 0992 581289

CHRISTIE & Co

By Direction of Joint Receiver
PRC Densham

The Old Manor Nursing Home SEATON

Substantial detached Nursing Home registered for 29, 15 singles, 7 twins. Lift. 2 lounges. Nurse call. Fully complies with fire regulations. Current occupancy 19. T/O £5,200 p.w. Ideal level location

Offers invited freehold
Ref 32/79358

EXETER OFFICE 0392 59771

PAPER MERCHANT

London based speciality paper merchant seeks purchaser for business. New product lines, excellent prospects.

Contact Robert Yorke on 071 439 0246 or write to Yorke Business Development Consultants, Silver Birches, Bashurst Hill, Itchingfield, Horsham, W. Sussex RH13 7NY
Fax: 0403 790029

IRONING SERVICE. London/Kent £1200/week minimum. Established 250 regular customers, simple cash business. £35,000 Tel: 0959 32081 or 0689 870049.

FOR SALE
PRIVATE LICENSED COAL MINE COUNTY DURHAM

Large reserves; Fully developed into coal; market acceptance of product. Offers invited for whole of business.

For further information
Write to Box No: H8861 Financial Times, One Southwark Bridge, London SE1 9HL.

Fitted Bedroom Furniture Showroom For Sale

An opportunity to purchase a profitable business with low outgoings. Prime High Street lease in affluent Surrey town. Turnover in excess of £200,000.

Principals only.

Write Box H8854 Financial Times, One Southwark Bridge, London SE1 9HL.

HOTELS & LICENSED PREMISES

PUB COMPANIES AND OPERATORS

Day to day Estate management available to Public House Companies - on an emergency or continuing basis. Specialist advice to the effects of the M.M.C. Report and on the Purchase / Sales / Expansion Planning of Public Houses - Single Units or Groups.

Contact J. Walsh C.M. Group
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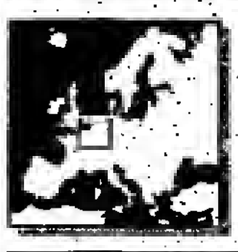
FINANCIAL TIMES SURVEY

The political scene divides along lines of language and region. See page 2

BELGIUM

The economy: after laudable success, the way forward is unclear. See page 3

Tuesday June 25 1991



Belgium combines a vision of a united Europe with internal fragmentation, writes **David Gardner**. With elections less than a year away, Prime Minister Martens is keen to complete the devolution of power to the regions, as well as legislation making Belgium more competitive

Aiming for federalism

LAST MONTH, the Belgian government offered the presidency of the European Commission a modestly grand permanent residence. Yet to be erected, it will have a eplendid facade by Victor Horta, the Belgian architect who was one of the leaders of the art nouveau movement at the turn of the century. The facade was dismantled from Horta's Hotel Aubecq when it was demolished – scandalously – in 1950, and lies like a giant jigsaw in a field near Brussels.

The idea seems altogether emblematic of Belgium, which combines a vaulting vision of a united Europe with its own fragmented, decentralisad country – an awkward nation-atate more comfortable the more it subsumes its nationhood into the supranation it sees emerging from the EC.

The two identities are inextricably bound. Belgium's politicians seem happy for power to continne moving beyond them to the EC, and below them to the three regions into which the country is divided: French-speaking Wallonia, Dutch-speaking Flanders, and polyglot Brussels, home to the EC's main institutions.

Their reasons are eminently practical, as well as – from Belginm's vantage – psychologically appealing.

It is reassuring, for example, for the French, Dutch and (the small minority of) German-speakers to be surrounded by France, the Netherlands and Germany, in what all communities see as an eventually federal Europe. The mind-set is quite different to that of unitary states like the UK.

Growing European integration has provided Belgium's political class with practical levers too. "The European idea has been decisive in this country," says Mr Bernard Snoy, chief adviser to finance minister Philippe Maystadt. "In the name of 1992, wa have been able to get things done we never could have dreamed of."

The evidence is there in the remarkable turn in pnblic finances and economic growth of the past four years. The succession of coalitions led by Mr Wilfried Martens since 1979 have more than halved the budget deficit, wiping 10 percentage points of GDP off public spending exclusive of interest payments.

They have, however, been able to do no more than stabilise the $200bn public debt at an unsustainable 120 per cent of GDP. This huge overhang, eating up ten times more in interest payments than the state invests, is the Belgian economy's main point of vulnerability – especially since further budget cnts could accentuate the downturn in business activity.

Nevertheless, the Belgian franc has hardened after the government tied it to the D-mark last year. Taxes on investment have been slashed, and private investment has hit an historic peak in the past three years, providing high, non-inflationary growth, good corporate profitability, and big increases in disposable income.

Under the impulse of 1992, the money markets have been liberalised and an open, modern financial centre is emerging in Brussels.

Mr Peter Praet, chief economist at Générale de Banque, Belgium's leading bank, points to a no less marked transformation in the attitudes of labour, not very long ago seen as at least as strike-prone as UK unions once were. This change has been beneficent towards multinationals, he says, who even before 1988 – when the French conglomerate Compagnie de Suez took over Société Générale de Belgique, Belgium's largest holding company – directly owned 40 per cent of Belgian manufacturing. "Do you know of any other country where foreigners could come in and buy La Générale?" Mr Praet asks.

Though Suez came in as a white knight against the predations of Mr Carlo de Benedetti, the Italian financier who mounted a hostile bid for La Générale, some government officials are now less sanguine about the consequent shift in corporate decision-making from Brussels to Paris. They and market analysts point out that La Générale offered an easy target not just because it was a sprawling holding which under-earned on its portfolio, but because it was a loose aggregate of semi-independent baronies.

Still, Belgium remains a very open economy, earning a good living in the international marketplace. It exports twice as mnch per capita as Germany – the country to which it sells most – and five times as much per head as Japan. "One of our main assets is openness," says Mr Praet. "We have rediscovered this but we have to push our reasoning further – to take the snccesses of the last four years and ask ourselves why."

These successes have been achieved at no visible cost to the politics of consensus. With so fragmented a political spectrum – there are Flemish and Walloon Christian Democrats, Socialists, Liberals, Greens and nationalists – so exact a system of proportional representation, and so many layers of representation at regional and national level, consensus is the cement without which no coalition can be built.

Mr Martens, a Flemish Christian Democrat now governing in tandem with the Socialists and the Flemish regionalist Volksunie, and looking for his ninth coalition in elections which must be held by January 19, knows this best of all.

He has painfully pnshed through devolntion to the regions and protection of language rights, bnt been frustrated in the "third phase" of constitntional change. This centres on direct elections to the Flemish and Walloon assemblies – which would get more powers – and reform of the Sanate, which would almost certainly lose some.

The immediate cause of the blockage is how to parcel out revenue from TV and radio licence fees among the language communities, which is also holding up agreement on next year's budget. "The Belgian political mechanism means that we have to find a solution, first, to the TV row, then for the budget, and only then, constitutional reform," Mr Martens says.

This reform will inevitably be left for the next coalition, while the government concentrates much of its immediate attention on Euro-matters.

Mr Martens, mooted as possible successor to Mr Jacques Delors as president of the Brussels-based European Commission, is instead moving constituencies from Ghent to Brussels, with the express aim of confirming the Belgian capital as "the political centre of the Community". He fears that if Strasbourg is confirmed as the permanent home of the European Parliament, then the Commission and European Council will eventually depart from Brussela, and "Belgium will become part of Europe's periphery – *I am convinced*".

This vision seems alarmist, but it shapes Belgian attitudes in the twin inter-governmental conferences on European economic and monetary union (Emu) and political union.

On Emu, Belgium practises its enthusiasm for a singla currency by keeping the franc half a point either side of the D-mark in the exchange rate mechanism of the EMS. Like France, it would like a share of the influence over Europe'a monetary systam now exercised overwhelmingly by the Bundesbank.

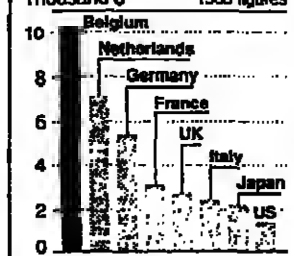
In the political union negotiations, Belgium is firmly in the federalist camp. It would prefer a single new treaty to three treaties, which it believes would increase government-to-government influence at the expense of genuinely common policies.

"As a small country, we fear domination by a *de facto* directorate of two or three big countries," Mr Mark Eyskens, the foreign minister, explains. "There is a leakage of sovereignty ... which will lead to a vacuum if there is no firm structure to retrieve it."

Euro-federalism, on this view, is the natural goal of a country itself striving towards a full-fledged federation to anchor its own sovereignty, and a privileged place at the centre of Europe.

IN THIS SURVEY

Exports per capita



Source: Generale de Banque

The famous 'Mannekenpis' statue in Bressels coyly dons traditional garb

Illustration by John Batten

Dick Leonard looks at a political scene divided along linguistic and regional lines, and profiles some of the players

Martens: the only constant

IT IS far from certain when the next Belgian general election will be, although the scheduled date is 19 January 1992. What is almost sure is that, whatever its result, the next prime minister will be Wilfried Martens.

He first got the job in April 1979, one month before Margaret Thatcher and – with a single break of eight months – has held it ever since, through eight governments. There have been left-centre coalitions, right-centre, grand and several other varieties of coalition.

This should not lead one to the conclusion that Martens is a mere Vicar of Bray, willing to trim his sail to every passing wind. Throughout his years in office, and for some time before that, his consistent purpose has been to achieve a reform of the Belgian state which would transform it from one of the more over-centralised of countries to a devolved system which Mr Martens calls federal unionism.

This was unnecessary, Mr Martens thought, because linguistic divisions between Dutch-speaking *Flemings* and French-speaking Walloons were making the country almost ungovernable as a single unit. Although separatism was far from being a serious force among the Flemings, and was almost non-existent among the Walloons, neither language group seem prepared to make the necessary compromises to govern in harness.

Mr Martens's predecessor, Leo Tindemans, managed to achieve an all-party consensus in 1978 for a devolved state with three self-governing regions, Flanders, Wallonia and Brussels. Then his own party, the Flemish Christian Democrats (CVP) reneged on the deal, and Mr Martens, also a CVP man, was left to pick up the pieces.

Painfully, he managed to introduce a a partial devolution in 1980, involving only Flanders and Wallonia, but linguistic tensions abated considerably as each language group was enabled to run its own show. Consequently, the right-centre government led by Martens between 1981 and 1987 was able to concentrate on restoring the competitiveness of the Belgian economy, which was in dire straits in 1981.

The EC government above, the regional governments below: Wilfried Martens's government is caught between the two

Six years later linguistic tension flared again, and the government was brought down over a quarrel concerning language rights in the Fourons, a tiny commune near the Dutch border town of Maastricht, which has already led to the fall of two earlier governments.

The subsequent general election produced a left-centre majority, and a new determination to prevent a repetition of such farcical events. The new government was a five-party coalition, consisting of the two Socialist parties (one for each language group), the two Christian parties and the moderate Flemish Nationalist party, the Volksunie. The Volksunie was specifically included to ensure a two-thirds majority in the Belgian parliament so that constitutional changes could be made.

A constitutional reform plan in three phases was agreed when the government was formed. The first phase, introduced immediately, was designed to protect minority rights in mixed-language communes so as to avoid a repetition of the Fourons events. The second, completed within a year, gave the Brussels region an elected assembly and its own regional government, while adding education, public works and several other services to those devolved in 1980.

The third phase was intended to provide direct elections to the Flemish and Walloon regional assemblies and to reform the national parliament, particularly the senate, which effectively duplicates the work of the lower house without acting as a counter-weight to it. Unfortunately the sense of crisis which saw the first two phases through was not sufficiently strong to prompt the five government parties to settle their differences over the details of phase three. In the fourth year of the government's life, it is now clear that nothing substantial will emerge before the election.

The Volksunie, which fears being outflanked electorally by the more extreme Vlaams Blok, a separatist and openly racist party, is profoundly disappointed not to have achieved the direct election of the Flemish assembly. It has uttered sporadic threats to quit the government if nothing is done, and it is just possible it may still do so, perhaps precipitating an early election.

More likely, however, the Volksunie ministers, who are clearly enjoying the fruits of office, will sweat it out, and the government will stick together until the election is called. Whether it will survive that election, and especially whether it will keep its two thirds majority is more doubtful. Recent opinion polls show all five government parties in decline, with especially heavy falls for the Volksunie and the Flemish socialists.

The main beneficiaries of the coalition losses have been two Green parties, which now command the support of 10 per cent of the voters.

The French-speaking Socialist leader, Guy Spitaels, recently gave a notably pessimistic assessment, predicting that Belgium would be difficult to govern after the election. He is not enamoured of the possibility of the Liberals joining the Socialists and the Christians in a "tripartite" coalition, which might well be the only combination which would secure a two-thirds majority.

If this option is rejected, there would be several possible outcomes. The present coalition might continue, with or without the Volksunie; it might be reinforced by the inclusion of the Greens or, possibly, the FDF, the small Brussels-based party defending French language interests.

A right-centre coalition is unlikely, unless the Liberals do spectacularly well, as the Christian Democrats have already made it clear that they prefer governing with the Socialists.

With all these possibilities, why is it so certain that Martens will finish up on top? Basically, because his party, the CVP, is an indispensable partner in any viable government, and he is far more acceptable to all the other parties than any other CVP leader. A Baldwinesque character, radiating trust and confidence, he is the only Belgian politician to have a strong public following crossing language barriers. For the moment, he remains the undisputed king pin.

Standard bearer for the right

IF THE spirit of Ronald Reagan and Margaret Thatcher lives on in any European political party, it is in the Flemish Liberal Party (PVV). Its leader, Guy Verhofstadt, is an unabashed admirer of both of them, and he sticks firmly to the monetarist principles which other European conservatives are fast abandoning.

Just 38, he already has a distinguished political career, having served as vice-premier and budget minister in the last Martens government, between 1985 and 1988. Mr Verhofstadt was easily the most right-wing member of this right-centre coalition. He was largely responsible for setting his own party on a right-wing track.

As a 28-year-old lawyer, already president of the Young Liberals, Mr Verhofstadt had taken in the PVV congress in 1980. He introduced a radical manifesto, stuffed with ideas derived from Friedrich Hayek and Milton Friedman, which

Verhofstadt: Determined

was preferred by the mass of delegates to the mild proposals put forward by the party leadership.

On the basis of this manifesto, the PVV made strong electoral gains the following year, and when its leader Willy de Clercq, resigned to join the government, Mr Verhofstadt was chosen to take his place.

Four years later, Mr de Clercq moved on to become an EC Commissioner, and once again it was Mr Verhofstadt who succeeded him.

A much tougher character than Mr de Clercq, Mr Verhofstadt was determined his party should dominate the economic policy of the government. As budget minister, he cut public spending and introduced a fiscal freeze and the privatisation of some public utilities. In two years the budget deficit was slashed from 12 to 8 per cent of GNP, and Mr Verhofstadt was bent on tightening the screws until it was down to an EC average of around 3 per cent.

In the autumn of 1987, however, the government collapsed, ostensibly over a linguistic dispute prompted by the sacking of a French-speaking mayor in a Flemish commune. Recriminations flew, but even Mr Verhofstadt readily concedes that his refusal to agree to any increases in public spending made him an uncongenial colleague.

At the last election, his stand was strongly endorsed by Flemish voters. His party gained several seats and he himself overtook prime minister Wilfried Martens in the number of preference votes gained in Ghent, where they were both candidates. Yet this advance was dwarfed by the much larger gains made by the *Socialists in French-speaking* Belgium, and a left-centre government became inevitable.

Its most severe critic has been Mr Verhofstadt, who has consistently maintained that it has wasted an opportunity of solving the debt problem.

Mr Verhofstadt's party is doing well in the polls and hopes to force its way back into government at the next election. The Christian Democrats and Socialists, however, clearly prefer each other as coalition partners.

A quiet voice of authority

THE man who calls most of the shots in Belgian politics has not been a government minister since 1981. Yet few would deny that Guy Spitaels, leader of the French-speaking Socialist Party, is by far the most influential Belgian politician.

When his party, which has been in opposition for six years, made substantial gains at the general election in December 1987, many assumed he would become prime minister. Although he was asked by King Baudouin to explore the possibilities, he did not see himself as a suitable candidate. Mr Spitaels nevertheless worked hard to ensure the new government would be a left-of-centre coalition in which his own party would play a dominant role.

It took six months to form the new government, led by the Flemish Christian Democrat, Wilfried Martens, who had been prime minister of the preceding right-centre government from which the Socialists had been excluded.

It was assumed Mr Spitaels would be senior but he chose to remain at his party post, which in Belgium is incompatible with ministerial office. Instead, he nominated his right-hand-man, Philippe Moureaux, a history professor at Brussels University to assume the vice-premiership.

The decision derived from the fact that the party was split over whether to join the government, and Mr Spitaels felt he should remain in charge to protect the backs of socialist ministers. In fact, the party adjusted very rapidly.

Now aged 59, Mr Spitaels came late to politics. He studied at the Catholic University of Louvain, and went on to became a professor of economics at Brussels University. At the age of 29 he joined the Socialist party, and at 42, in 1973, he was asked by Edmond Leburton, prime minister of a short-lived Socialist-led government, to become his chef de Cabinet. Within six years Mr Spitaels was himself a vice-premier, in the first Martens government, formed in 1979. Two years later he abandoned his ministerial post to become party leader, only to see his party forced into opposition,

Behind the scenes: Spitaels

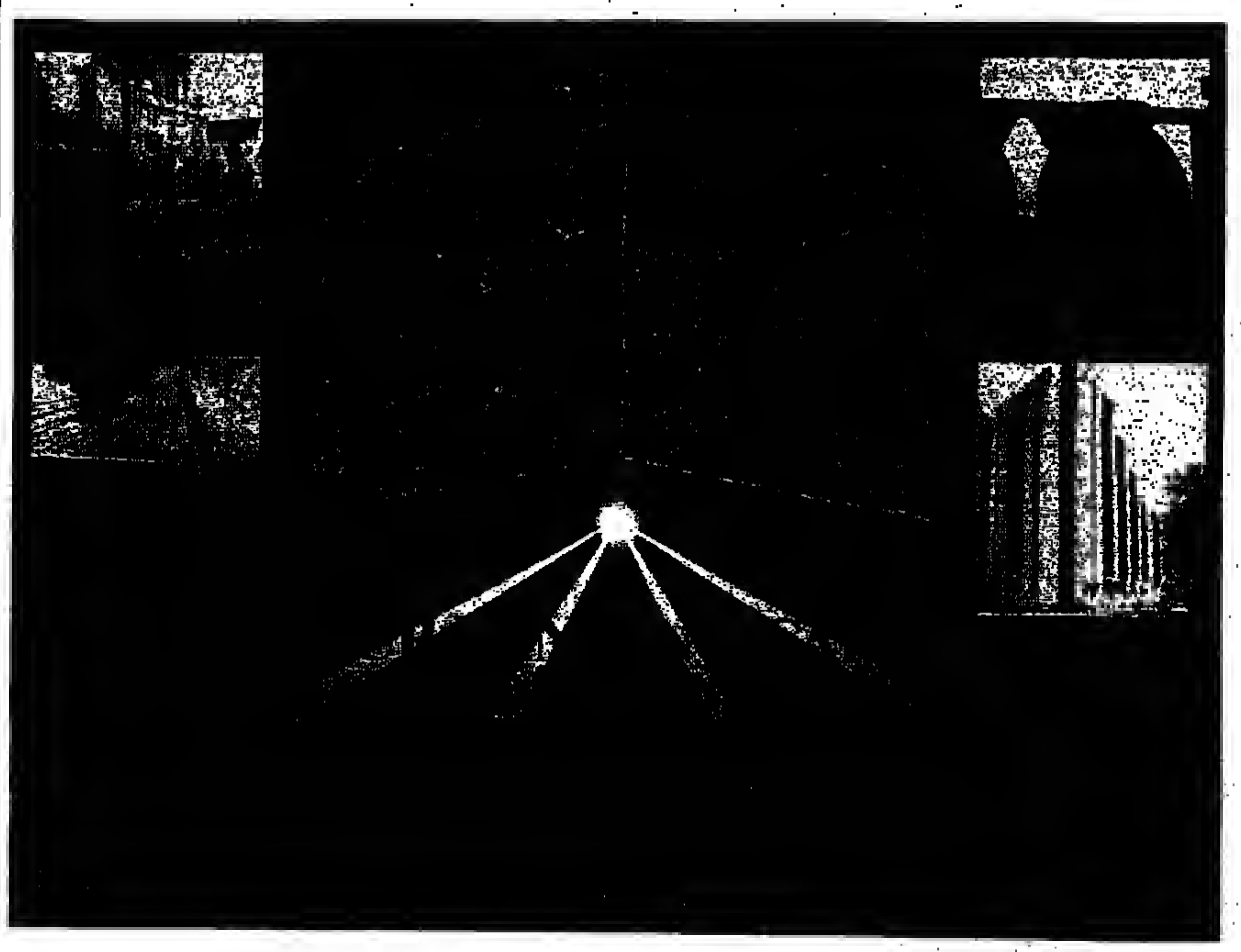
where it remained for six years, its longest period in the wilderness since the 20s.

Mr Spitaels was not an obvious choice to rally the party. A fastidious intellectual, he was no platform spellbinder, but over the years he proved a shrewd and determined strategist, working to make his party the champion of French-speaking Belgians, while squeezing out other left-wing forces, including the once significant Communist party.

His master-stroke, much criticised at the time for its opportunism, was to recruit José Happart to the Socialist party. Mr Happart, then the embattled mayor of the Fourons, a French-speaking enclave in a Dutch-speaking province, was seen as a martyr when he was sacked for not speaking Dutch.

This move put the Socialists into an impregnable position at the last election, which meant Mr Spitaels was effectively master of the national government as well as the regional authorities in Wallonia, and later Brussels.

An earnest, somewhat introverted man, Mr Spitaels has relaxed as his power has grown. Elected chairman of the Confederation of European Socialist Parties in 1989, he has now led his own party for ten years, and may perhaps feel it is time to move on. Philippe Moureaux has announced he will be leaving the government after next January's election. It would be no surprise if Mr Spitaels were then to take his place, perhaps combining it with the Ministry of Foreign Affairs.



After great success in stabilising the economy, the way forward is unclear, **David Gardner** writes

Budget cutting strategy could be threatened

SPURRED by the challenge of the single market, and crushed by a $200bn public debt, Belgium has been remarkably successful in stabilising its macroeconomy in a way that has promoted non-inflationary growth.

Yet there are now signs that the budget-cutting strategy has reached a floor below which political consensus could be threatened. With recent high levels of investment slacking off and a slowing of growth, more cuts could accentuate dangerously the downturn in the business cycle.

Yet the achievement so far has been impressive. Belgium has more than halved its budget deficit in the past decade, from 13 per cent of gross domestic product in 1981 to 5.6 per cent last year. Expenditure, exclusive of interest payments, has been cut by 10 percentage points of GDP.

The government has tied the Belgian franc to the D-mark. The central bank now intervenes when the franc fluctuates half a percentage point either side of the German currency – a far tighter margin than the 2.25 per cent band allowed the Belgian currency by the exchange rate mechanism of the EMS.

Private investment has been at an all-time high in the past three years, with return on capital swinging from -2 per cent in 1981 to 14 per cent now

The reward has been a narrowing of interest rate differentials with Germany, from 5.1 per cent in 1980, to 2 per cent when the "hard franc" was unveiled in May last year, to 0.4 per cent now.

This is for three-month rates, and is vital in containing the government's interest bill. But worries about the public debt still exact a risk premium on long-term rates of about 1 per cent.

The hard franc policy, and the decision to slash the withholding tax on income from financial assets from 25 to 10 per cent, have nevertheless turned a $6bn outflow of capital in 1989 into a $2bn-3bn inflow last year.

The man at the helm: finance minister Philippe Maystadt

Private investment, partly in consequence, has been at an all-time high in the past three years, with Belgian companies' net asset position strongly positive, and their return on capital swinging from minus 2 per cent in 1981 to 14 per cent now, according to Générale de Banque.

Monetary financing of the budget deficit has virtually ceased. Treasury bills are now set by weekly auction, significantly lowering government borrowing costs. The money markets have been deregulated, and Brussels is determined to compete as a modern financial centre – the finance ministry and central bank are starting road-shows to advertise it this month.

There has been a slight pick-up in inflation, but it remains low – 3.4 per cent last year, and probably just over 3 per cent this year. Growth is high, averaging 4.1 per cent in 1988-90, and providing Belgians with the biggest increase in the their disposable income since 1976.

Wages in this year'e round have been settled at behind levels of increase in Germany, whose economy pulls Belgium along by taking about a fifth of its exports.

Per capita, Belgium exports nearly twice the amount Germany does, and five times what Japan does.

The currant account, strongly negative in 1975-85, has seen its surplus increase each year since then, reaching an estimated BFr166bn ($4.8bn) last year, or 2.5 per cent of GDP.

Yet the debt mountain radiates fragility into the economy, doubly so now that growth looks less robust, forecast recently by the IMF at 2 per cent for this year.

Tha so-called "snowhall effect" whereby governmant debt mounted solely to keep pace with ballooning interest bills, has been halted, with the debt-to-GDP ratio held at about 120 per cent.

The blunt instrument which stopped it remains in place: the "dual target" fiscal strategy which proscribes any "real", or net of interest, rise in spending, as well as any rise in the nominal budget deficit.

Monetary policy and debt management have been separated, and the aim is to reduce the deficit to about 3 per cent of GDP – still above the EC average – by the mid-90s.

Public finances, however, are consequently afflicted by what the finance ministry calls the "cuckoo effect" – the crowding out of public investment by interest and current spending.

Belgium's interest bill is nearly 11 per cent of GDP. It spends 21 per cent of national output on social transfers such as health, education, pensions and social security, and 11 per cent paying (badly) its nearly 1m civil servants.

This leaves only 1.4 per cent for public investment – and it shows.

Much of the infrastructure is creaking, and Belgium spends well below the EC average on R&D for instance.

"We don't have money for essential investment, like the environment and public transport, because we're paying out so much in interest," says Mr Wilfried Martens, the prime minister.

Like any Latin American or East European debtor in the 80s, he bemoans the fact that "a one point rise (in interest rates) means BFr20bn ($570m) to us".

But where, after the cuts, can more money be found?

Mr Martens reacts with puzzlement to the suggestion thet his centre-left coalition's planned BFr35.2bn bail-out of Sabena, the otherwise insolvent flag airline, is, under the circumstances, less justified than, say, badly needed outlays on education or re-training of the long-term unemployed. "The state must remain in place," he asserts.

Officiale explain that Sabena, aside from being necessary to develop Brussels airport as an airline hnb, would cost more to close than to refloat, not least because of the social transfers which would be needed for its 12,000 workforce.

Snoy: "We need better management of public resources"

Many economists in and outside the government believe the need now is to move from macroeconomic to carefully targeted structural reforms.

Mr Bernard Snoy, chef de cabinet to Phillipe Maystadt, the finance minister, says "what we need is better management of public resources ... to spend more effectively the money we have".

He cites as an example the redirection of some unemployment benefit into training.

The jobless total has dropped from 12.2 to 9.8 per cent since 1987, but, uniquely in the OECD, four fifths of these have not worked for at least a year, and two thirds for more than two years.

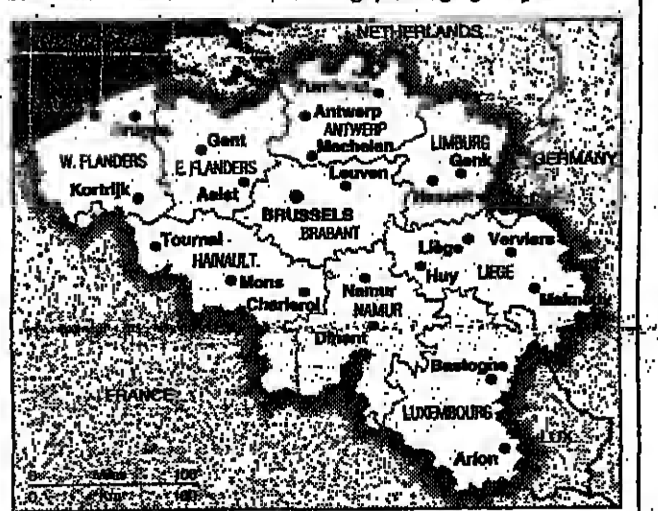
The labour market is much tighter than the unemployed total suggests, partly because generous early retirement provisions take Belgians – women in particular – out of the workforce far earlier than in other industrial countries.

In its most recent report on Belgium, the OECD warned that the country's ability to grow itself out of debt would depend on it providing incentives and retraining to keep people at work – especially since the ageing of the population is raising the pensions bill to unsustainable levels.

The private sector argues for lower taxes and social transfers, and, more cautiously, for a form of privatisation. Mr Peter Praet, chief economist at Générale de Banque, points out that the fuel for growth in the years of public retrenchment has come from a nearly 10 points of GDP transfer of income from wages to capital.

To increase already high taxes would lower falling receipts further. Better, he says, to lower taxes, move closer to real costs in everything from prescription charges to university fees, and entice more private money into infrastructure investment – like the mixed capital company running Zaventem airport in Brussels or the Flemish regional authority's joint venture with Severn Trent of the UK to treat sewage.

"There is no choice," Mr Praet argues, "but to take e more business-friendly attitude."



KEY FACTS

Area .... 33,100 sq km
Population .... 9.93 million (1990 estimate)
Head of State .... King Baudouin
Currency .... Belgian franc (BFr)
Avg exchange rate .... 1989 $1 = BFr39.40 1990$1 = BFr33.42

ECONOMY	1989	1990
Total GDP ($bn)	156.8	197.8
Real GDP growth (%)	4.1	3.7
GDP per capita ($)	15,794	19,916
Components of GNP (%)		
Private consumption	63.3	63.0
Total investment	19.6	19.6
Government consumption	15.2	14.8
Net exports goods/services	1.9	2.6
Consumer prices (% ch pa)	3.1	3.4
Ind wage rates (% change pa)	5.7	4.0
Unit lab costs (% change pa)	0.5	2.7
Unemployment (% lab force)	10.2	9.8
Reserves minus gold ($bn)	10.8	12.2
Public external debt ($bn)	28.7	33.3
Narrow money growth (% pa)	5.6	1.2
Broad money growth (% pa)	10.4	4.3
Discount rate (% pa, year end)	10.2	10.5
Govt bond yield (% pa avg)	9.8	10.0
FT-A Bel index (% ch in year)	+9.1	-25.7
Current account bal* ($bn)	3.2	4.3
Exports* ($bn)	100.0	118.1
Imports* ($bn)	98.5	119.6
Trade Balance* ($bn)	1.5	-1.7
Main trading partners* ('90, % by value)	Exports	Imports
West Germany	21.3	23.8
France	19.4	15.8
Netherlands	15.2	17.6
UK	8.5	8.2
Italy	5.5	4.5
USA	3.4	4.6
EC	71.4	72.9

* = Belgium and Luxembourg Economic Union
Source: IMF, Datastream, Economist Intelligence Unit

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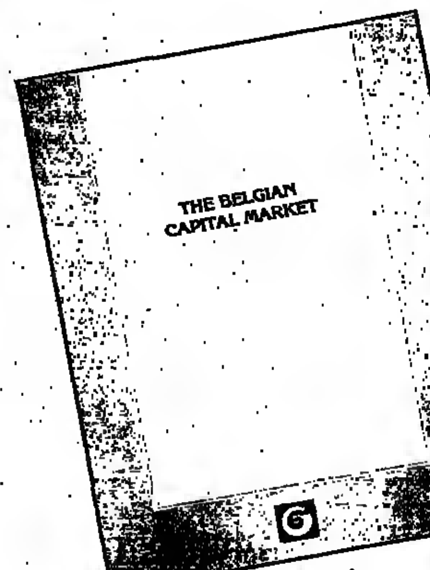
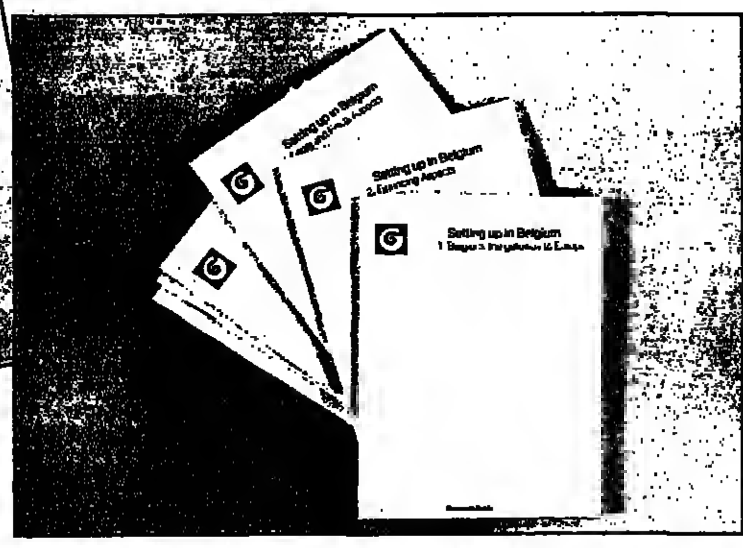




The big four public companies get a new look, writes **David Buchan**

Entering the real world

BELGIANS use their telephones sparingly, making about one fifth fewer calls per line than their neighbours.

Given the delays in getting hooked up to the system – still an average wait of 80 days in Brussels and half that in the rest of the country – you would imagine the wires would positively burn as new subscribers vent their pent-up desire to telecommunicate with the outside world. Perhaps it is the reputation of the country's RTT telecommunications monopoly for poor service that deters Belgians from dialling.

Change is under way. A law passed in March puts the four big public corporations – telecommunications, post, railways and air traffic control – on an arm's length basis with their owner, the state. New boards of independent managers will be expected to run the enterprises at a profit.

It is far from privatisation: indeed these enterprises' public function is explicitly reaffirmed in such a way that public services carried out at the government's behest, like railway links to rural areas or cheap postal rates for newspapers, must be identified and accounted for separately.

The biggest impact will be on the RTT, soon to be renamed Belgacom. Although it will stay owner of the network of lines, and sole supplier of basic services, the provision of value added services like data transmission is now open to competition. Some competition comes from within: with Alcatel Bell, the RTT has set up a joint venture called Belgian Rapid Access to Information Network Services (BRAINS).

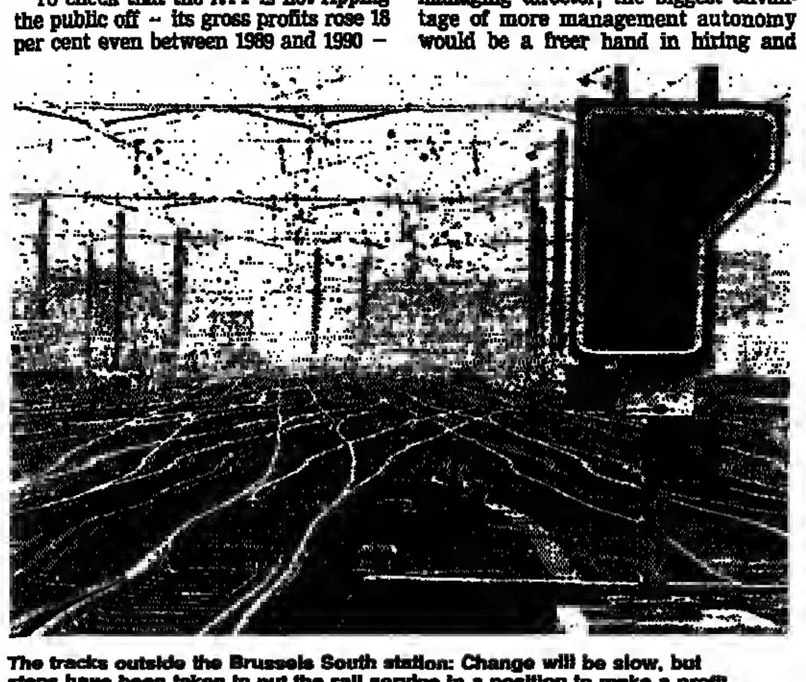
To check that the RTT is not ripping the public off – its gross profits rose 18 per cent even between 1989 and 1990 – the Institut Belge des Postes and Telecommunications is being created to fill the same role as Oftel in the UK.

For Mr Louis Eggermont, the RTT managing director, the biggest advantage of more management autonomy would be a freer hand in hiring and firing. This is even harder in the railways and postal service which employ about 45,000 each. Change here will be slower, despite the fact that the SNCB can no longer claim monopoly rights on freight, and that the postal service is having to cope with growing competition from business couriers which have established themselves at Brussels' Zaventem airport.

This last facility is the major asset of the Regie des Voies Aeriennes, which also runs air traffic control. So far it is proving easier to attract investment to expand Zaventem than it is to sustain the Sabena airline.

Six other public institutions – the banks owned by the central state or the *communes* – are also being pushed into the real world this year. There was little choice: under EC legislation, designed to create the level playing field of 1992, the banks could no longer benefit from the guarantee of the Belgian state. Even with such a guarantee, the public credit institutions had been losing market share to private banks.

The six have been formed into two groups – one around the holding company of Caisse Générale D'Epargne et Retraite (CGER), and the other around the holding company of Credit Communal. Each holding will stay 100 per cent in public hands, but is free to form subsidiaries with private shareholders taking up to 49 per cent in capital or 24 per cent in votes.



The tracks outside the Brussels South station: Change will be slow, but steps have been taken to put the rail service in a position to make a profit

The tradition may be winding down

Only just holding on

PEOPLE are beginning to ask difficult questions about Belgium's famous holding companies. Or as one British fund manager put it: "I can see what they were there for in 1822 (when Société Générale de Belgique was founded) but God knows what they're there for now."

"Les holdings" represent nearly a quarter of the market capitalisation of the Brussels stock exchange. Holding company is a lazy way of classifying a motley bunch of businesses. They range from giants like La Générale and Groupe Bruxelles Lambert (GBL), which have fingers in most of Belgium's significant industrial pies, to smaller vehicles such as Sofina, active in energy, finance and distribution; or Belcofi and Cobepa, investment groups with a widely spread portfolio of holdings.

Questioning the rationale of a holding company is not particularly difficult. Etienne Davignon, La Générale's chairman, did it rhetorically in the group's 1989 annual report: "What does Générale, and what do its companies, with so little apparent similarity, have in common?" Two unifying factors, he said: a single management structure and the aim of achieving "a continuous progression in the growth of our results".

But in April, La Générale announced that a weak dollar and a steep fall in metals prices had cut net group profits by nearly 40 per cent for 1990.

The first quarter this year was even worse and since the beginning of last year, shares in both La Générale and GBL have underperformed the Belgian market. All holding companies are having to face up to tougher economic conditions.

"Holdings are a Belgian tradition," says one Brussels broker, "but more and more institutional investors are getting negative because they see that these companies are not really outperforming the market and at the same time are defending the interest of the majority and not the minority shareholders."

Holding companies have always had the ability to shuffle assets within their complex structure, but some shareholders and analysts are beginning to tire of the constant financial manoeuvring.

Holdings like Société Générale were originally set up with the stated aim of "promoting national industry (in the sense of industriousness)", but critics now believe that wheeling and dealing benefits only the majority shareholders of the ultimate holding companies.

The impact of canny asset management is also difficult to trace, they say, because of the complex structure of the largest holdings. That makes the shares less popular with investors new to the Belgian corporate scene.

Investors are getting negative because holding companies are not outperforming the market

Furthermore, the entrenched position of the largest holdings can clog up what is already an illiquid market.

Tractebel – a quoted holding company with strong engineering and energy interests – is itself 40 per cent controlled by La Générale. GBL also holds a blocking minority stake, partly as a means of sharing in Tractebel's minority investment in Petrofina, the Belgian oil company.

"GBL has leverage over the assets, but the inconvenience of being the junior partner in the arrangement," says one analyst.

None the less, the Byzantine cross-holdings persist.

Filip Lowette, group communications manager at Société Générale, says it is only natural that the holding companies are being judged on performance, but he adds: "These are not new issues. It seems as though they come up every 10 or 15 years."

Before 1988, when Mr Carlo de Benedetti launched his unsuccessful hostile bid for La Générale, the company was frequently criticised for putting management interests ahead of shareholders' interests and for holding too wide a variety of small stakes.

Since 1988, the policy has been to invest heavily in a few chosen companies, with the aim of becoming the controlling or at least the largest shareholder. As a result, says Mr Lowette, the criticisms have changed to fit the new strategy: majority shareholders and allegedly immobile sharestakes are now in the firing line.

But, according to analysts, investors are becoming more demanding. The highly centralised structure and burdensome overheads of a large holding company look anachronistic to the fund managers of the 90s.

"(To be attractive) holding companies have now got to have assets that you can't buy through another route, they have got to be at a discount (to asset value), and they have got to have good management and a simple structure," explains Mr Sebastian Scotney of London broker, Dillon Read.

Minds have also been concentrated in the Belgian economic and corporate sector by the tightening grip of Compagnie de Suez, the French financial conglomerate, on Société Générale. In February, Suez increased its stake to 61 per cent. In the words of one senior finance ministry official, "whole areas of Belgian economic decision-making are now no longer being taken in Brussels".

The Benedetti bid and its aftermath prompted the Belgian government to formalise and tighten takeover rules, improving shareholder information and reducing the opportunity for cosy agreements between investors in holding companies. Meanwhile, parallel reforms of the corporate tax regime in Belgium have closed loopholes, reducing the fiscal advantages which the holdings' financial engineers have usually been quick to exploit.

Answering a questionnaire about the rationale for holding companies in a Belgian financial magazine earlier this year, Cobepa described its strategy as "in the tradition of the 19th century merchant-investment banker – standing alongside families and management as an active professional shareholder".

Analysts agree that if the balance is maintained, such an approach is admirable. But if they have one fundamental criticism of Belgian holding companies, albeit disputed by the companies themselves, it is that in recent years the holdings have preferred the less philanthropic attributes of the 19th century banker – aloof from and impervious to the outside world – to the slightly more rigorous discipline of the active professional shareholder.

Andrew Hill

Andrew Hill on the tax problem

Loopholes closing

TAX is a slow business in most countries, and especially so in Belgium. Banks advise private clients who want to settle their tax bill before the end of the year – by means of *versements anticipés* – to underpay rather than overpay, because it can take three years to recover surplus tax.

That is partly why it may be a while before Mr Philippe Maystadt, the finance minister, will know whether his attempts to plug loopholes in the country's corporate tax legislation have been successful.

Versements anticipés for Belgian companies' 1990 tax year suggest Mr Maystadt will achieve his aim of improving Belgium's comparatively modest tax yield from the corporate sector and bolstering overall tax revenue. The fiscal official close for the 1990 fiscal year is not until the beginning of next week and by the last close – December 31, 1992 – Mr Maystadt himself may no longer be in office.

The certainty of an election before the January 19, 1992 is not the only factor limiting the finance ministry's room for manoeuvre this year, but it is a significant one. In election year Mr Maystadt's advisers believe it would be politically imprudent to tamper with the personal tax regime, but he is on safer ground with corporate tax. "Companies don't vote," points out one official.

In the last two years the finance minister has started to chip away at some of the tax breaks undermining the yield from Belgium's ostensibly quite high corporate rate, which only recently dropped from 43 to 39 per cent.

These moves should help the government obey its own rule, that the enormous budget deficit and real public spending (excluding debt interest) should remain constant – the second factor boxing in the finance ministry's tax policy.

Pressure from the deficit and the electorate is no more than fiscal policy-makers in any democracy would expect. But Mr Maystadt is also being made to sweat by the officials in offices at the opposite end of Rue de la Loi, in the European Commission's headquarters.

Many of the improvements in tax revenue squeezed out of the Belgian system in the last year may have to be sacrificed to the demands of the single market.

For one thing, as borders open, Belgium finds itself under competitive pressure to reduce its corporate tax rate still further, perhaps to 35 per cent, although that is unlikely to happen until after a general election. The hidden incentives – which reduced the effective tax rate to less than 22 per cent on average in 1989 – still exist to a degree. But neighbouring countries' basic corporate tax rates are lower and, as one official put it, "When company bosses want to set up here they see only the headline figure of 39 per cent."

At the same time, there seems little chance of the government improving its revenue through indirect taxation, although it will have to take steps, some of them politically unpopular, to harmonise its complex seven-tier system of value added tax (VAT) with the rest of the EC.

The suggestion is that the upper levels of 33 and 25 per cent on various luxury goods, will be reduced, and the standard rate of 17 per cent increased to 19 per cent. Belgium may try to cling on to higher VAT for cars, possibly in the form of another tax, but it will also maintain zero-rating for some products, and is likely to go along with an EC list of products which will be subject to reduced VAT of perhaps 5 per cent. The effect? Both fiscally and (the government hopes) politically neutral.

Belgium is still afraid that its citizens' penchant for cross-border shopping will continue to swell the VAT coffers of the treasury in neighbouring Luxembourg, with its traditionally low indirect tax regime. Indeed, on the grounds that VAT harmonisation was not happening fast enough, Belgium originally blocked EC agreement on a politically undemanding Dutch proposal to increase limits on EC travellers' tax-paid allowances.

But the veto was withdrawn at the March meeting of EC finance ministers, and narrowing of VAT rates across the EC, combined with a higher standard rate at home, may actually increase indirect tax revenues for the Belgian government.

If there is a final and not insignificant pressure on the Belgian treasury, it is the real or perceived ability of citizens and companies to evade taxes. An OECD report published in December was scathing about the country's tax system which, it claimed, had "probably contributed to the emergence of a black economy in Belgium of unequalled size in Europe outside the Mediterranean area".

The report continued: "Over the past five years it is clear that government tax revenues have not kept pace with income growth. This is probably in no small part the product of a tax system plagued by substantial tax evasion encouraged by high marginal rates, by a myriad of available tax expenditures artfully exploited by fiscal experts and by an inadequate tax administration."

Finance ministry officials are understandably protective of the system, and point out that even if tax fraud is endemic in Belgium – which is easy to assume, but difficult to prove – it is present in every country of the world. It is simplistic, Mr Maystadt's advisers claim, to argue that tax-cuts would alleviate the problem: "Citizens will go on defrauding the system even if there is a reduction in rates ... It's Utopian to say that one could come up with a tax which would be completely enforceable."

David Gardner on why the 'question des siéges' matters

Brussels fights for its life

FOR Belgium's political class, there is nothing arcane or petty about the *question des siéges* row – the competition over which member states provide the seats for what EC institutions.

Mr Wilfried Martens, the Belgian prime minister, is the only political survivor among the EC leaders who in 1981 provisionally located the Commission and the council – the executive and the deciding legislature of the EC – in Brussels, and the parliament, the advisory and amending legislature, in Strasbourg.

Two developments have combined to upset the status quo. France has vetoed any decision on where to locate the new European Environment Agency (EEA) – for which the council of ministers voted more than a year ago – until Strasbourg is confirmed as the parliament's permanent home. Second, the EC political union negotiations now going on will, in the view of Mr Martens, eventually lead to a much strengthened parliament.

They fear an also strengthened Commission – a proto-European government – will have to locate alongside the legislature to which it will become accountable. This may be hard to imagine now, Mr Martens concedes, but in ten years' time, "the real legislature will be the parliament, and I'm convinced that if the parliament stays in Strasbourg, the Commission and council will inevitably follow."

The prime minister has thus chosen to move from his Ghent constituency to stand in Brussels at the elections due on January 19, expressly to ensure that the Belgian capital is confirmed as the EC's political centre.

As a Flemish Christian Democrat, Mr Martens faces a tough battle in a capital which tilts slightly towards the Francophone Socialists, but events appear to be conspiring in Brussels' favour.

The Commission is so exercised by the hold-up over the EEA that it is conducting a high-profile campaign to get it decoupled from the Strasbourg dispute. Provisional status for all main EC *sièges* may thus continue.

Brussels' status, meanwhile, is set to become more definitive. This is because the Commission is to move out of its Berlaymont headquarters. The unlovely and unloved "Berlaymonster" – a sort of starfish on stilts – is where the 3,300-strong

The move from the 'Berlaymonster' ultimately entrenches Brussels' status

core of the Eurocracy has been since 1968, but it is riddled with asbestos and a fire hazard. The Belgian government and the Commission have already fixed temporary alternative lodgings, and equally smartly, are poised to agree on a prestige Berlaymont II to go up on the same site.

The new headquarters will house 6,000 to 8,000 officials. In addition, three smaller buildings, will be added to the 42 the Commission already occupies in Brussels. The expansion will accommodate the projected growth of Commission staff from 14,000 to 23,000 by the year 2000, even before any expansion of the EC is taken into account.

The cost of this development is so great as to make any flight from Brussels politically unlikely, and, as a consequence, the Belgian government is happy to bear the brunt of it.

This is not easy for a state with a $200bn public debt, the highest per capita in the EC. In Brussels, this lack of cash is evident in the general dowdiness of the city, where some public buildings stay unfinished, and infrastructure like public transport is *surviving (just)* on heavy investment made in the receding past.

Berlaymont II will cost BFr15bn-20bn, borne largely by the state, which owns 70 per cent of Berlaymont SA, the Commission landlord which will also have to fund the destruction of the existing building. The three other new buildings should cost around BFr5bn, but the Commission will pay this back through long-lease contracts.

The government is already liable for the forseeably large overspend on the new home for the Council being built in front of the Commission, and spending BFr12bn on a tunnel giving access to both complexes. It is also building a new European school for Eurocratic children.

Part of the government's reasoning in refloating Sabena, the ailing flag airline, at a cost of BFr35.2bn, is to ensure that Brussels-Zaventem airport becomes a vibrant transport hub.

Belgian officials believe that on "a cool cost-benefit analysis", all this is worth it. They maintain the EC presence is worth 10 per cent of gross domestic product to Belgium – equivalent, as it happens, to its debt interest bill. The EC is a "business magnet" says Mr Loic de Canniere, a senior Public Works ministry adviser. "The presence of the EC is one of Belgium's main assets," he says: "we have ports, and we have the Community."

Brussels has geared up for competition, writes Andrew Hill

The investment roadshow

THREE years ago an international roadshow to promote Belgium's attractions to investors would have seemed a futile exercise.

Withholding taxes on interest income were higher than in neighbouring countries; the interest rate differential between Belgium and Germany was enticing investors to Frankfurt rather than Brussels; the domestic money market was open only to Belgian financial institutions and Luxembourg banks; and the opaque dealings of the stock exchange and debt market were largely unautomated and influenced by cosy arrangements of brokers and banks.

The biggest attraction to *outsiders – and, indeed, to* large Belgian companies – seemed to be the successful "co-ordination centres" initiative, offering fiscal incentives to multi-national businesses setting up headquarters in the country. But given that the Belgian government was having difficulty persuading its own citizens to bank in Belgium, rather than "offshore" in Luxembourg, drawing in more international financiers looked a huge task.

Last week, however, the Belgian government and financial institutions began a roadshow which will take them round the globe to financial centres like Tokyo, New York, Zurich, London, Paris and even Taipei. The fact that the grand tour is taking place at all indicates the progress of the reforms initiated three years ago by Mr Philippe Maystadt, Belgium's finance minister, but it is also a statement of intent: Brussels wants to be part of the same elite group.

"We always asked ourselves what were the interests of the financial community as a

The fact that the grand tour is taking place is a statement of intent

whole, and what we should do to make Brussels the financial centre of the future," says Mr Bernard Snoy, Mr Maystadt's chief adviser, who has been heavily involved in the reform programme.

Analysts and economists seem to be in broad agreement on what have been the most important changes:

● The February 1990 reduction in withholding tax on interest from bonds and most bank deposits – from 25 per cent to 10 per cent.

Mr Snoy points out that 25 per cent was not a particularly heavy rate for Belgian investors, but adds: "We're surrounded by places where there is no withholding tax and thousands of Belgians are putting their money in Luxembourg markets and not declaring it. [The tax] was driving Belgian resources and financial know-how beyond our frontiers."

Whether financial expertise is flowing back into Belgium is difficult to say, but private capital certainly is. The 12 months to last September showed a *surplus* for *private* sector capital transactions in Belgium and Luxembourg of BFr302.5m, against a deficit of BFr129.1m in the equivalent period, and National Bank figures show a shift by individual and institutional investors to Belgian franc-denominated assets.

The return of domestic private capital has also been assisted by the government's promotion of Sicavs (*sociétés d'investissement a capital variable*), which allow investors to roll up dividend income, free of tax. A new range of Belgian equity funds along these lines – many managed by banks – is already offsetting the lure of Luxembourg's Sicavs.

● The decision by Luxembourg and Belgium to abolish the two-tier foreign exchange market for the Belgian franc, and, later, to tie the franc closely to the D-Mark.

The interest rate differential between Belgium and Germany has already reduced sharply and, as one broker explains, "by making a commitment to stick with the D-Mark, the government has solved the problem of having to pay an uncertain currency premium for servicing its debt".

● The abandonment of the consortium system, through which banks agreed to subscribe for the depressingly frequent issues of government bonds.

Belgian banks and government were growing complacent with the old system. Before the reforms Belgian Treasury certificates sometimes yielded more than short-term bank deposits – an absurd situation given that governments are traditionally a better risk for lenders.

The reforms – which included the installation of a new system of "primary dealers" – have already stimulated the secondary market in government debt instruments and attracted international investors. And although the new system has caused some pain for the Belgian banks, there is also some relief that they no longer have to clog up their books with government paper.

In addition, Peter Praet, chief economist at Générale de Banque, says that the loss of commission has been offset to some extent by the improved volume of business: "We may lose in margins but we have gained in volume: we pay more but we've increased market share."

● The liberalisation of the stock exchange.

Belgium's "little bang" programme of stock market reforms took place at the beginning of the year. From

The modernisation does not necessarily give the Brussels bourse the edge over its counterparts

January 1, stockbrokers lost their monopoly on exchange business: they had to incorporate as limited liability companies, which could be owned by banks or insurance companies, and conform with new rules on capital adequacy and market structure. Lower commission scales were introduced from February 5 and a real-time index of large Belgian stocks – the Bel20 – was launched in March. The bourse hopes the Bel20 will enhance the relatively recent computerised trading system and strengthen the planned futures and options market, which, despite delays, should open later this year.

But though radical for Belgium, brokers and politicians admit the modernisation of the stock market has simply brought the Brussels bourse into line with its counterparts in other European countries. That should mean a less painful adjustment at the end of next year, when Belgium will have to conform with proposed EC legislation on investment services, but it does not necessarily give Brussels the edge over other financial centres.

The reforms have certainly shown the finance minister's willingness to tackle the debt problem head-on, and laid a good foundation for the future. Now Mr Maystadt faces the more difficult task of persuading international investors that what he says is good for the Belgian government, people and financial community, is also good for them.

SAY *Don Juan* and for every hundred Belgians who think of Moliere or Mozart, not one French or German theatregoer will come up with Michel de Ghelderode's 1928 *Don Juan*. *Faust*? Marlowe to us, Goethe to everyone else, Ghelderode again (1926) to the Belgians.

The scale is small, national playwrights are obscure, theatres of international standing few, and funds derisory. The Brussels National Theatre gets BFr138m a year, about a fifth of the subsidy of just one Berlin house. Yet Belgian drama does some things better than the multi-budgeted Germans and French; and as a focus for two separate traditions which share unique characteristics, its theatre is more nationally revealing than international hothouses like the Monnaie Opera.

Theatre in Belgium, as in Berlin, is one of the few places where two sides of the divided community come face to face. There is a good rapport between Flemish and francophone actors and companies, and the cultural overlap means that despite distinct Walloon and Flemish traditions, it is possible to speak of a Belgian drama.

One common feature is a sensitively assimilated international repertoire. Belgian theatre is happier with Brecht than the French, closer to Racine than the Germans, for example. Productions stay light because there is no reverence for national shibboleths: Goethe and Tennessee Williams and feminist dance, *Oedipus* in the Ghent patois, not an eyebrow raised.

Shakespeare becomes oddly Belgian: Hugo Claus has just adapted *Richard III* into conversational Dutch; the Flemish Needcompany transforms scenes from a *Antony and Cleopatra* into *Need to Know*.

At the same time, Belgium has its own traditions. Ghelderode, for example, was Flemish, wrote in French, then got translated back to Flemish. Look for the roots in Moliere or Corneille and you are baffled; go to Brueghel and Bosch and you find the heir to Ghelderode's medieval puppetry and tragi-comic poetry. His *Barabbas* is performed in Flemish towns at Easter, modern theatre slipping easily into the tradition of pageantry and clowning parade.

Belgium's best known modern writer, Henri Michaux, picked up on this naturally dramatic quality in surreal grotesques, such as *Monsieur Plume*, seen at Louvain-la-Neuve earlier this season. Michaux lived in France but acknowledged the Belgian component in his work by the self description "Belgian, of Paris".

"Spectacle," says Philippe van Kessel, in his first year as a director of the French speaking National Theatre in Brussels, "is a word to be defended."

Mr Kessel likes to mix "contemporary and classical, the political, the light hearted, dance, music, texts". This is Diderot's arid *The Veuve de d'Allembert* which was leavened into farce with operatic interludes underlining philosophical coups. *Marivau* became a semi-circus with performing horse. For the Jewish folk classic *Dibouk*, a fog hung over the auditorium, making the state resemble a fuzzy 20s black and white photo.

Van Kessel's vision for the spirit of a show rather than separate components of actors, scenery, and musical accompaniment have inspired some of the most original French speaking productions in Europe this year. Comedie Française, eat your rigid Parisian heart out. Monnaie Opera, keep an eye open: Van Kessel's Christmas venture is a Puccini comedy.

In year one, van Kessel has even won round the famously stuffy ("Mark Morris Go Home") Francophone critics.

London audiences had a chance last

Comedie Française, eat your rigid Parisian heart out

month to see Anna Theresa de Keersmaeker's Rosas company in the Goethe Tennessee Williams dance *Stella*. Rosas, now to work with the Monnaie, has long been involved with Brussels' big Flemish theatre, Kaaitheater and returned for the international festival.

This is one of Europe's most European theatre festivals, with Kaaitheater productions which have opened elsewhere – Needcompany's Hemingway stories in Spanish and Dutch; Jan Farbre's live music show *Sweet Temptations* in English and German, both seen at the Vienna Festwochen - coming home to Brussels.

Few theatres in Europe could keep healthy box offices with so international s series yet, maintain Kaaitheater director Hugo de Greef, "Flemish culture has its own definition, we are a community with our own feelings and specific traditions which you still see in contemporary work like a Rosas performance."

"I am an international artist but first I am a Flemish artist," says Jan Lauwers, director of the Hemingway-based *Invictos* which opens in Brussels later this week.

Van Kessel's plans for international national theatre include co-productions to help foot bills, links with Berlin's Schaubuhne (Von Kleist's *Anphitryon* next season, and a possible visit fom Britain's RSC (*Troilus and Cressida*).

Another Elizabethan play in English is hoped for; in the capital of Europe Van Kessel has the captive market for foreign language production.

He still worries about the lure of Paris for Belgian actors, but French culture is only a part of his ambitious theatre.

Thus the strength and variety as well as the limitations of Belgian drama: fewer than half his 13 productions for 1991-2 are originally French; just two are by Belgians.

The RSC: One link in Van Kessel's plans for international national theatre. (Pic by Alastair Muir shows RSC players Harriet Walter and Bruce Alexander in Duchess of Malfi)

Jackie Wullschlager goes to the theatre

A divided community comes face to face

TECHNOLOGY

Greek bus stops smog in its tracks

By Kerin Hope

Some of the grimiest *buildings in Athens over*look Acadimias Street, the main route taken by the city's elderly buses on their way to the suburbs.

They grind slowly uphill, emitting a cloud of soot-laden fumes at each red traffic light as if to reinforce the environment ministry's view that buses are a major contributor to the Greek capital'e chronic atmospheric pollution.

But an occasional bus rumbles past without exuding even a trace of black smoke. It has been fitted with a Greek-designed diesel particulate trap which removes about 95 per cent of soot emissions and releases clean exhaust gas into the atmosphere.

The system was developed by Constantine Pattas and a team of researchers from the Applied Thermodynamics Laboratory at the Aristotle University of Salonica. Its advantage is that the ceramic filters in the trap, which retain soot particles, can be automatically cleaned while the bus is on the road.

With other particulae traps, the filters must be removed for cleaning or connected to an outside power source to provide the high temperatures needed to burn off accumulated carbons and hydrocarbons.

The Salonica team's method of automatically regenerating the filters involves throttling tha exhaust gases from the engine in order to raise temperatures to the point where the soot build-up is transformed into carbon dioxide. An electronically controlled bypass valve protects the filters from overheating.

"The process was developed step by step over a number of years, starting from the idea of using the oxygen-rich exhaust gases to burn off the accumulation of matter in the filters. In our first pilot projects, regeneration was manually controlled by the bus driver and we didn't have the bypass system to prevent the filters from melting," says Nikolaos Patsatzis, a member of the team who has been working as a consultant on the project for the Athens Urban Transport Corporation.

European Community financing helped speed up development of the trap enabling it to be tried out on a few buses in Athens. The system successfully meets future EC standards for diesel emissions on heavy-duty vehicles, due to be applied over the next six year.

Compared with current permitted levels, reductions of up to 60 per cent in emissions of soot, carbon monoxide and oxide of nitrogen will be required.

In the past two years an improved version incorporating the automatic bypass valve has been operating on about 100 of the 1,800 buses in the Athens fleet, most of which are more than 14 years old. The trap contains four monolithic ceramic filters in a light stainless steel casing. A pair of poppet valves controlling the flow of exhaust gases through the filters can be partially closed to increase both pressure and temperature.

But if the temperature rises above 600 deg C, both poppet valves shut down and the bypass valve automatically opens so that the filters are isolated and can cool down. "If the bus is sitting in a traffic jam on a hot summer day, the temperature can rise rather sharply during regeneration," Patsatzis says.

Another factor in improving the system'a efficiency was the addition of a cerium compound to the fuel. Cerium, a rare earth mineral, is non-toxic and helps curb temperatures during the regeneration process. However, only small amounts of cerium can be used since it is not burned off but remains in the filters as e powder.

The trap is now being manufactured by Elbo, a Greek company in Salonica, et e cost of around Dr1m (£3,100) each. Several versions are available for retrofitting to different types of bus engine in use around Europe.

Considerable foreign interest is being shown in the system, partly because it is cheaper to produce and has a longer test record than other devices being tried out in Germany and Austria. A South Korean company is interested in manufacturing it under licence, while the municipal bus company of Lyons in France may become the first European customer.

An eastern breeze in the Med

Della Bradshaw describes why IBM's French factory is turning to new production methods

IBM's manufacturing centre in Montpellier, southern France, nestles in gardens of flowering shrubs and vines. But belying the apparent languor of the ancient town, the mainframe computer maker has had to move swiftly to keep up with the times.

IBM now sees its lucrative market for mainframe machines under threat – from other manufacturers, particularly those in Japan, and from other technologies, such as networked personal computers. In order to sustain profits, the company has turned to many of the manufacturing techniques usually associated with its far eastern rivals. These methods, IBM hopes, will improve quality, cut costs and make the company more responsive to customer needs.

At Montpellier, where the ES/9000 top-end mainframes are assembled – 90 per cent for export – IBM has introduced its own version of electronic ordering, just-in-time assembly and computer-integrated manufacturing (Cim) systems. But to do that, IBM has had to alter completely its way of working, says Georges Foujols, who has been responsible for implementing Montpellier's manufacturing strategy since mid-1989.

"Our real target is to be competitive against the outside world," says Foujols. "We don't want to implement Cim just because everybody else does it." The factory boasts a 100 per cent implementation of Cim – there are no standalone PCs, all are connected by computer networks. And it has introduced what it calls "continuous flow manufacturing".

"We started by looking at everything that had a physical flow," says Foujols. "It came down to two elements: the flow of the computer on the line and the parts flow, from where they are stored to where they are used in manufacturing."

Foujols found that all the factory's processes were driven by the planning system, which calculated the supplies needed to produce the required number of mainframes. This in turn triggered everything else. "It was driving the execution of what we did, when we ordered stock and when we produced what." This meant, says Foujols, that operators on the shop floor had to compensate for its inaccuracies. They called the stores when they ran out of parts which often resulted in too many parts, or too few, or over-stocking.

While maintaining the system for planning, Foujols decided to use the expertise of the operators on the floor to trigger the movement of products and parts.

This policy enables the operators to order parts electronically, directly from the supplier, using e "two bin" system – the operator always had two bins (for small parts) or two pallets (for larger ones). Each pallet or bin, labelled with a bar-code denoting the type of widget and its supplier, holds enough parts to keep the operator busy until the vendor can deliver new supplies. When one bin is empty the operator reads the bar-code electronically and this information is sent automatically via the main IBM computer to the supplier – as an order.

Two years ago the factory had no bar-codes in place: today 30 per cent of orders are placed directly with up to 80 suppliers in this way. Eventually Foujols believes that about 80 per cent of orders will be placed electronically.

The suppliers, he says, have been positive about electronic data interchange (EDI). "Generally speaking vendors are happy because they have better planning data." But feeding the components directly from supplier to production line has created knock-on problems, such as how to ensure that the components have no defects. And the operators have had to be trained to make the right decisions.

Training the operators was part of a trend within IBM factories to reduce the number of indirect workers. The production employee (Prodemp) programma in Montpellier was intended to give each production worker the skills to broaden his or her job responsibility, and to speed promotion.

As well as wielding a screwdriver or soldering iron to do one job on the line, the operators were trained to repair their own equipment and take responsibility for the quality of of work. "Up until now an operator's knowledge has been largely ignored. We've changed that so we can use that knowledge," says Robert Leblanc, who is in charge of training.

The result for the Montpellier plant has been a 4-5 per cent decrease in indirect workers, says Leblanc, but he points out that the real savings have been achieved elsewhere. Because the operators understand the workings of their tools better, they break down less frequently, for example. And staff opinion surveys have shown that employees who had taken part in Prodemp had higher morale.

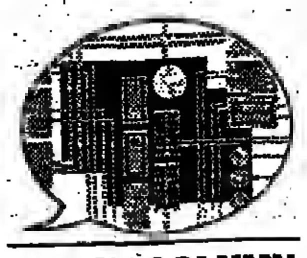
The parts vendors who participate in the electronic ordering process have also had to learn about quality control the IBM way. "Suppliers are fully accountable for the quality of their parts," says Jacques Robouam, in charge of quality control. "The president of the company sits at a table here to learn our quality procedures."

Robouam's aim is to reduce the number of defects, taking the number of faults which occured in 1989 as the baseline, by a factor of 10 by the end of 1991. "By 1994 our goal is to have no defects," he says.

The jury is still out on whether IBM's Montpellier factory will compete on price and quality with its competitors in the US and Japan into the next century. But within IBM, the factory is having its own quality battle. Every month the three manufacturers of ES/9000 machines – Moutpellier, Poughkeepsie in the US and Yasu in Japan – exchange indicators on cost, turnaround time and quality. Today, boasts the Montpellier management, the quality of machines delivered to their customers is better than that of either peer.

Tax incentives for pure research

By David Sawers



GUEST COLUMN

The shambles that characterises the UK government's financing of pure research – awards for new research projects at universities have been cut because government funding has been reduced in real terms – is a clear sign that radical changes need to be proposed.

One solution to the problem would be to supplement government grants with tax credits, thereby encouraging industry to fund more pure research at universities.

The response to this proposal from the Treasury will be that taxation should have neutral effects and tax credits are therefore bad; from industry, that it pays taxes so that the government can finance such services as academic research.

The proposal does not merit either criticism. Tax credits would replace some of the government grants and would be no more a distortion of the economy than grants are now.

The proposed system would allow companies to treat as a business expense perhaps 170 per cent of their donations to finance pure research. The donations could finance university posts, general research funds or specific pure research from which the companies could gain no financial benefit.

This tax credit would leave companies paying half the cost of the donation with corporation tax at 33 per cent and allowing for the interval between expenditure and benefit. It would not come under the EC's regulations about state aids because the company would not benefit financially.

To maka the system neutral in its effect on public expenditure, grants to the research councils would be redneed each year by the amount that had been allowed in tax credits in the previous year: the net addition to the funds for pure research would be the 50 per cent of the gross contributions from industry that came out of its own resources.

The benefit of this proposal would not only be the funds that it might attract to research, but the additional sources of funds it could bring.

Pure research is an occupation for which neither the desirable volume nor form of activity can be objectively determined. Decieiona on whether to finance pure research projects are based on scientists' judgments about the potential interest of the anticipated results and about the ability of the researcher.

Pure research shades gradually into applied research, leaving a wide intermediate band in which industry may finance research for the possibility of long-term benefits. Some such research may be contracted to universities; the present proposal would not affect such contract research.

If industry became a significant additional source of funds, the efficiency of pure research should be enhanced, by reducing the risk that novel ideas would be rejected. If industry gave more towards academic research it would also benefit through better recruits.

Industrialists tend to protest that they are not influenced by tax concessions and do not want to finance academic research. But such statements are likely to prove unreliable guides to their actual conduct: when the idea of a British "Per Cent Club" to encourage charitable donations was floated, e survey of institutional shareholders suggested that it would fail in the UK: but it proved a success, and the target contribution was raised from ¼ a per cent of profits to 1 per cent within four years.

This experience shows that industrial attitudes to charitable giving are changing in the UK; now seems a good time to experiment with tax incentives for pure research. The Treasury should treat experiment as a virtue rather than a vice; and Conservative politicians should recall their desire to reduce the role of the state.

The author is an economic consultant.

ARTS

The head, hand and heart of Freud

As it becomes increasingly evident that Lucian Freud is one of the great artists of the age, so any substantial or comprehensive show takes on an extra importance. The exhibition of his etchings now at Thomas Gibson Fine Art (44 Old Bond Street, London W1, until July 12; in association with James Kirkman) is surprisingly the first to bring together the complete oeuvre in the medium which, though not as yet extensive, is already rich and particular in its achievement. The handsome catalogue is, for the moment at least, definitive.

There are in all bnt 38 images to cover almost the entire career, the earliest dating from 1946, the latest from 1991. But that thin spread is deceptive, for between tha fourth of them, of a girl in bed, "Ill in Paris" of 1948, and the fifth, "Bella," again a simple image of a girl's head, there stretches an interval of some 34 years. Since 1982, Freud has continued regularly active in the medium, as a natural complement to his enduring interest as a painter in working from the head, whether of friends, family or the model, and from the nude figure, male and female.

With so tiny an early output and so long a gap, we might well expect the body of later work to represent a truly fresh start. There are differences of course, both psychological and technical, the surface lighter in the early work, the line thin and nervous, the mood febrile and edgy, flirting between the surreal and the neo-romantic. Tha later work is no less intense in mood, but the scrutiny is more direct and unblinking, the touch firmer, more unselfconscious. It is not that there is any lessening in the humanity of these later images – and they remain in essence extremely beautiful for all their bluntness – but rather that their seductiveness is not so obvious, nor their charm in part the creature of anecdote or a quirky surrealism.

Those early images were soon disproportionately famous, perhaps by virtue of their very rarity, becoming true icons of British neo-romanticism. The girl half hides herself behind her fig leaf, or buries her head in the pillow, …

A 1987 etching, "Head of a Man"

William Packer

Julia Migenes and Antonio Ordonez, alone in a multitude

Tosca

EARL'S COURT

Andrew Clements

Sophonisba

THE WHITE BEAR, KENNINGTON

The career of John Marston (1575-1634) is e cautionary tale for this year's graduating students intent on scorning …

realpolitik and *passion; his* Sophonisba is never tha hapless pawn but e quick-witted desperanza who does all …

Andrew St George

Holt & Birtwistle

ALDEBURGH FESTIVAL

Composers-in-residence at Aldeburgh tend to be … figures – *Goehr* and …

Andrew Clements

Zawinul Syndicate

JAZZ CAFE

One problem with jazz fusion is that it can be reduced to sterile and directionless riffing in the wrong hands: mediocre motorway music for people more interested in technology than composition. …

Garry Booth

Royal Philharmonic

FESTIVAL HALL

David Murray

INTERNATIONAL ARTS GUIDE

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Much ado in Japan

THE GREAT debate goes on: how different is Japan from other industrial democracies and how similar ought it to become? Many argue that it needs to change all its political, commercial and social spots. Such people often seem to hope that a failure to make demanded changes would provide an excuse for hostile action. In practice, however, a distinction must be drawn between the unrealistic quest for a fully westernised Japan and acceptance of the sorts of practices unearthed by the latest stock market scandal.

Cynicism, both at home and abroad, has been greatly increased by Japan's responses to past disgraces. Two years ago, for example, the Recruit scandal seemed to have wrecked the old ways of doing things, forcing the departure of a prime minister and several other members of the Cabinet in the process. The government was even being challenged by a resurgent socialist party under a charismatic new woman leader.

Yet last week, Mrs Takako Doi in effect took leave of her newly retitled social democratic party, which had resorted to its traditional internecine ideological bickering. Simultaneously, Mr Noboru Takeshita seems to be able to ensure that if he does not himself become prime minister again he will have the deciding vote in who does.

Latest scandal

Similar doubts are raised by the latest scandal to afflict the Tokyo brokerage community, which has claimed the scalps of the heads of the largest securities house, Nomura, and another of the big four, Nikko. The offences, indemnifying selected clients for any investment losses and buying golf club memberships from known gangsters, might seem shocking to the outside world. But they will come as no more of a surprise in Tokyo than the revelation that Japanese politicians sometimes take favours. Japanese companies have for years been paying off gangster elements to ensure orderly annual meetings.

One would not be unduly cynical, therefore, to expect that it will be business as usual on the stock exchange, once the ritual heads have rolled. This will frustrate the west, but it may not upset the Japanese as much as the current ritual huffing and puffing suggests.

Yet a return to business as usual would be most undesirable. The Tokyo stock market and its major players are too important and the world's financial markets too integrated to permit large discrepancies in regulatory standards and corporate behaviour.

Powerful remedy

Fortunately, a stock market collapse is itself a powerful remedy. Many dubious practices were largely the result of the buoyant markets of the 1980s, when everybody assumed that the market could only rise. Nobody complained when all were making money. It is to be hoped that the change in financial climate will also have raised the moral temperature; or more particularly that it will have increased the authorities' will to take action.

Nevertheless, long-term relationships are so fundamental to Japanese business that such behaviour will never disappear entirely. All the government can, and should, do is to discourage such practices in future. The ministry of finance is aiming to separate brokers from fund managers. It will doubtless demand stricter internal discipline. But it should also seriously consider setting up an adequately staffed Japanese Securities and Exchange Commission.

Japan's will never be an Anglo-Saxon economy. Given its performance, it is difficult to justify a demand that it should. Nonetheless, the Japanese cannot expect foreigners to look with tolerance on the practices now unearthed. It is in Japan's own interest, therefore, to make those parts of its economy and society that impinge most on the rest of the world – an ever-increasing proportion of the whole – as open and transparent as possible. As it happens, this is also in the interest of a large portion of the Japanese population. Japan may never be completely above reproach, but it should show both its own people and the world that it is at least trying.

Islam and democracy

THE NEW Algerian government is, in one sense, only of the caretaker variety. It is intended to hold office until the parliamentary elections, which were to have been held next week, but which President Chadli Benjedid has postponed – probably till October – after the violent clashes with Islamic militants at the beginning of this month. But the decisions to be taken in these four months could be crucial not only for Algeria's future but also for North Africa as a whole, and of some importance to Europe too.

Algeria is the most populous of the three Maghreb countries and, thanks to the mineral wealth of the Sahara, easily the richest. Until a few years ago it was also much the most tightly controlled, economically and politically. But since the riots of 1988 Mr Chadli has embarked on a bold experiment of liberalisation.

All three regimes face vigorous opposition from Islamic movements whose programmes inspire fear not only in the regimes themselves but in much of the westernised middle class. Only in Algeria has the regime, to the alarm of its neighbours, taken the risk of allowing overtly Islamic opposition to take part in the electoral process.

One of them, the Islamic Salvation Front (FIS), won a spectacular victory in local elections a year ago. Since then many secular-minded Algerians have come to feel that the outgoing government was too lax in allowing the FIS to exploit the freedom granted, and to abuse a democratic process which some of its leading members openly despise.

Legitimate doubts

Certainly the FIS has used mosques for political activity, and people on the fringes of it, with or without the connivance of the leadership, have resorted to violence. Although its chief spokesman, Sheikh Abassi Madani, proclaims his willingness to abide by the rules of the democratic game, there are legitimate doubts whether he would be able, even if willing, to maintain those rules once installed in power.

At first sight the declaration of martial law, the resignation of the reforming government and the postponement of the elections, followed by a wave of arrests of Islamic militants and the claimed discovery of a plot "to create an armed organisation to destabilise the state institutions", make it look as if Mr Chadli has yielded to such fears and embarked on a path similar to that of President Ben Ali in Tunisia. Certainly he is determined to keep order in the streets, and the appointment of two women to the cabinet suggests a willingness to meet Islamic opposition head on.

Free polls

But the new prime minister, Mr Sid Ahmed Ghozali, has made it clear he expects the FIS to participate in the "free and clean" elections to be organised in the autumn. He has given instructions to avoid any unnecessary arrests or repression, and is seeking a consensus on changes to the electoral boundaries, which his predecessor had rigged flagrantly to the FIS's disadvantage. He appears confident that to a free and fair election those Algerians who favour a free and modern society will be found to outnumber those who believe they can put the clock back to the time of the Prophet.

No one can pretend the task of organising free elections in such a highly charged atmosphere is going to be easy. Mr Ghozali's success or failure will be determined, as he is well aware, partly by economic factors. He badly needs the confidence of Algeria's foreign creditors, and he should be well placed to win it, both through the technical competence of himself and his colleagues and because the west, especially Europe, has an obvious stake in his success.

If he succeeds, the force of Algeria's example will be considerable throughout North Africa and perhaps in the wider Arab world. But the effect of his failure, whether Algeria falls under an Islamic regime or back into military dictatorship or, perhaps most plausibly, into a long period of instability, would be most unhappy, not least for Europe which would face a new and massive influx of Moslem immigrants.

Minimum wages have rarely achieved their intended effect, reports **Peter Norman**

The poor cousin of poverty fighters

The Labour party's promise to introduce a national minimum wage has brought back to life an instrument for poverty reduction that had largely fallen from fashion in recent years.

For although minimum wages have a century-old pedigree and are popular, most recent studies suggest that they have rarely achieved their goal.

In the case of the UK, the National Institute of Economic and Social Research and James Capel & Co, the City investment firm, suggest that Labour's plans to introduce a national legal minimum hourly wage, starting at a level of 50 per cent of median men's earnings would add modestly to unemployment and reduce national output.

The effects would be greater if Labour were to achieve its goal of lifting "over time the minimum wage as a proportion of earnings to a point where nobody is paid less than two-thirds of the median male hourly wage". But on any reasonable interpretation, Conservative party claims that Labour's proposed minimum wage package would cost up to to 2m jobs appear greatly exaggerated.

Although the first minimum wage acts were passed in Australia and New Zealand nearly a century ago, economists have always had problems assessing the effects of such measures on employment, economic activity and other macro-economic variables.

It is uncertain, for example, whether much could be learned about the likely effects of Labour's plans for statutory regulation from Britain's previous experience with minimum wage rules. In 1909, Winston Churchill, then president of the Board of Trade in a Liberal government, introduced wages councils in Britain to fix minimum pay in four trades with no collective bargaining and low wages.

From this modest attempt to cope with public concern about "sweated labour" there evolved a complex and ineffective system of wage regulation until 1986 when the Conservative government stripped the UK's wages councils of many of their powers.

Researchers have therefore tended to look abroad where statutory minimums, along the lines proposed by Labour, exist in the US, France, Luxembourg, the Netherlands, Portugal and Spain. In recent years, most have concluded that poverty can better be alleviated through changes in the tax and benefits structure.

The French experience with the Smic – the *salaire minimum interprofessionnel de croissance* – is probably of the greatest relevance to the UK. The Smic applies to a large number of people – about 2m, or 12 per cent, of the French workforce – and after rising from just under 40 per cent of net average earnings in the late 1960s has fluctuated around 50 per cent of average earnings since the early 1980s. This is roughly equivalent to the criteria defined for stage one of the Labour party's minimum wage policy.

The 24-nation, Paris-based Organisation for Economic Co-operation and Development has its doubts about the system. Its latest annual review of the French economy concluded that the national minimum wage was partly responsible for France's relatively high 9 per cent unemployment rate and a rising proportion of long-term jobless, particularly among the more vulnerable – the young, older workers and the unskilled.

In a separate study, published by the OECD, Mr Stephen Bazen, a lecturer at Kent University, and Mr John Martin, a senior OECD economist, estimated that for every 10 per cent increase in the minimum wage, youth employment in France decreased by between 1 per cent and 2 per cent.

Such findings are not unique. There has been a consensus among US economists that increases in the US federal minimum wage had small negative effects on teenage unemployment. Until recently, however, the US had a policy of allowing the relative value of its minimum wage to fall.

In the Netherlands, the government pared the relative value of the gross minimum wage in the 1980s so that it fell from 77 per cent of the average wage in 1978 to 68 per cent in 1987. The 1989 OECD report on the Netherlands said this cut raised the employment of low-productivity workers, with employment among under-25s increasing by 32,000 between 1983 and 1986.

In the UK, both Mr Keith Skeoch, James Capel's chief economist, and Mr Paul Gregg, a senior research officer at the NIESR, have concluded independently that the first stage of Labour's plan would add about 60,000 to the total of unemployed over five years and clip half a percentage point off economic growth that might be expected over that period.

The two differ somewhat over the inflationary implications. Mr Skeoch expects the measures would add 1.7 per cent to consumer prices over three years but this inflationary blip would work itself out after five years. Mr Gregg forecasts a 3.5 per cent increase on prices over three years.

These figures do not suggest that the minimum wage would be a big job killer. But neither researcher has examined what would happen if Labour went on to raise the minimum wage to 66 per cent. "That would be more problematic," says Capel's Mr Skeoch. Mr Gregg, however, does not hesitate to brand the Tory party calculation of 2m job losses arising from Labour's minimum wage plan as "ludicrous".

The accompanying table helps explain why the impact of the minimum wage could be limited. According to Mr Gregg, minimum wages would mainly benefit part-time workers, male and female. Altogether 15 per cent of employees, or 3.5m people, would be affected and their wages would rise by nearly 15 per cent on average on the implementation of the first stage of Labour's package. But the UK's total wage bill would rise by only 1 per cent, because most workers earn more than the minimum wage.

But there would be an additional "knock-on" effect as workers just above the minimum wage succeeded in restoring differentials against those who have just benefited from wage rises. The result, says Mr Gregg, could be to boost the UK's overall wage bill by about 1.6 per cent.

This relatively modest figure can be little more than a guess. The high percentage of part-time workers among the minimum wage beneficiaries argues against a big knock-on effect. But the impact of the Labour plan could be much greater if a powerful trade union – in the public sector, for example – regarded it as an opportunity to boost members' pay.

How this unknown element in Labour's minimum wage plan would interact with Britain's membership of the exchange rate mechanism of the European Monetary System is a particular worry to some observers.

"My concern is that the whole money wages structure will go up, if we do not narrow differentials," says Mr Walter Eltis, the director-general of the National Economic Development Office. "As several trades unions have said they do not want differentials to narrow, Britain's competitiveness in the ERM will weaken."

THE NATIONAL MINIMUM WAGE

Beneficiaries of Labour's plan

	Percentage of group
Full-time adult male*	4.3%
Full-time adult female*	13.6%
Part-time male	40.2%
Part-time female	39.8%
Total adult employees	15.3%

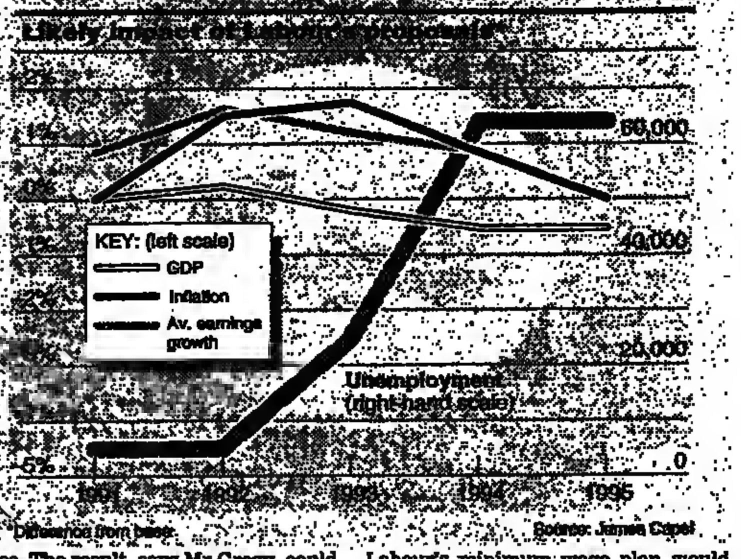
*Excludes overtime

Gainers (full-time employees)

By industry		By age	
Agriculture, forestry, fishing	17.4%	18-20	31.6%
Energy, water	[illegible]	21-24	12.4%
Mining	[illegible]	25-29	6.0%
Metal goods	[illegible]	30-39	4.7%
Other manufacturing	[illegible]	40-49	5.4%
Construction	[illegible]	50-59	6.3%
[illegible]	[illegible]	60-64	6.6%

Source: Paul Gregg, NIESR

Likely impact of Labour's proposals



Rumbles of discontent

Michael Smith on union splits over wages for the low-paid

The Labour party's plans for a minimum wage policy have helped to embroil the trade unions in their most significant political row this year.

While unions representing low-paid workers strongly favour a statutory minimum wage, craft unions representing skilled workers fear that differentials for skills will be squeezed as a result.

Mr John Edmonds, general secretary of the GMB general workers' union, earlier this month said leaders of two craft unions were "shilly-shallying" on the issue. Despite an attempt by the Trades Union Congress to negotiate a common stance, the argument has dragged on.

How deep are the inter-union divisions and what are the pressures on Labour to modify its policy?

Mr John Smith, shadow chancellor, was correct when he said last week that most unions supported the policy. The only outright opponent is the EETPU electricians' union, whose influence on other unions is limited since its expulsion three years ago from the Trades Union Congress.

But the AEU engineering union – Britain's fourth-largest union – is ambiguous. Along with all other TUC affiliates, it backed a statutory minimum wage in April. But since then, Mr Gavin Laird, AEU general secretary, has said he is opposed to a minimum wage in the private sector.

The main concern of both the AEU and the EETPU is that high wage rises for the low-paid would erode the pay differentials their higher-paid members have accumulated. The wage rises for the low-paid would have to be high in the early years of a statutory policy as the minimum pay target rose gradually from a half to two-thirds of male median earnings.

Other union leaders are less concerned about differentials. Rather, they are concerned about the possible effects of a minimum wage, combined with Labour's plan for a national economic assessment (NEA), on free collective bargaining.

The NEA would bring together government, employers and unions to discuss a range of economic and social issues. Some union leaders, not just in the AEU and EETPU, fear that they will be asked to moderate pay claims in return for minimum wage rises and other trade-offs.

Mr Smith and other Labour leaders say an "old-style incomes policy" is not on the agenda. Some unions remain suspicious but most will try to keep silent in the interests of pre-election unity. The problem is that the EETPU and some AEU leaders feel no need for restraint.

Labour party leaders claim to be relaxed about the union row on the grounds that it will do their image no harm if they are seen to be distancing themselves from unions. There is a strong commitment to a minimum wage within the shadow cabinet because it is seen as a socially just measure, common in other countries.

Even if it wanted to, Labour would now have little scope to abandon the minimum wage. Opinion polls show that the policy is popular – one recent poll showed 87 per cent of voters were in favour. By withdrawing the policy the Labour party could also be portrayed as weakening its commitment to the European Commission's social charter of workers' rights.

Nonetheless, the continuing argument among unions has put Labour under some pressure to alter certain aspects of its policy. One possibility would be for the party to lower the initial minimum wage to half the median earnings of both sexes: considerably less than the present target of half of male median earnings.

Alternatively, Labour could abandon the commitment to reaching two-thirds of male median earnings eventually. Some shadow cabinet members privately have doubts about the feasibility of ever reaching the higher level. They believe it could raise unemployment to unacceptable levels.

But either of these possible changes could lead to a dispute of greater intensity than the present one. The "shilly-shallying" and hypocrisy accusations now in circulation would look tame in comparison with charges of "U-turn" that would undoubtedly ensue.

OBSERVER

Revenge in the air

■ Despite the high-flown words at yesterday's meeting between John Major and François Mitterrand in Dunkirk, *entente cordiale* is not the main principle governing Anglo-French relations. It still takes second place to *up yours, alors* – to judge by the Paris Air Show.

At the UK counterpart to Farnborough last September, the French felt slighted because their aerospace champions including Dassault, Aerospatiale and Snecma, were not given prime sites for their corporate hospitality chalets. So come the Paris event, they returned the compliment to Britain's industry leaders.

After enjoying front-row positions at the last show there two years ago, both British Aerospace and Rolls-Royce had their chalets relegated to the second rank. And although the wine still flowed, the stiff upper lips of the UK contingent failed to conceal the pique they felt at the way they'd been treated.

The tits for tats were punctiliously weighted. For instance, the French even repaid the sop the Brits handed them at Farnborough by having then Prime Minister Thatcher ceremoniously visit the Dassault and Aerospatiale stands.

At Paris Serge Dassault, head of the makers of the French Rafale fighter, escorted President Mitterrand to the BAe stand – the first time a French head of state has deigned to visit a British exhibit at a Paris Air Show. Whereupon the president chatted graciously about the UK's involvement in the European Airbus programme.

But as soon as the Brits tried to switch topic to the European fighter aircraft, the audience ceased. Before Mitterrand had any chance to hear BAe's sales pitch for the Rafale's main rival, Dassault whisked him off to continue his tour.

Given so much acid in the atmosphere, it is perhaps not surprising that the title of "give-away of the show" was awarded to the present handed out by Deutsche Aerospace: a tin of dyspepsia tablets.

Frost expected

■ Interest in the long-running Blue Arrow trial should pick up again today when Tom Frost, chief executive of National Westminster Bank, is expected to step into the witness box.

Yesterday, the court heard Frost described as "Teflon Tom" because things did not stick to him.

Tabuchi's exit

■ Nomura Securities, Japan's leading stockbroker, spent much of the 1980s cultivating a sophisticated international image. The resignation of its president – Yoshihisa Tabuchi – has badly tarnished that reputation.

Other Japanese companies have been hit by scandal – notably Sumitomo Bank, where the chairman resigned after an incident last year. But it will be harder for Nomura than for others to rebuild its reputation: Japanese financiers tend to look down on stockbrokers as "kabu-ya" or barrow-boys. Also, Nomura fostered a sense of corporate arrogance, which will not encourage sympathy.

Tabuchi, who took office in 1985, was only the fifth president since 1948. Each man carefully prepared his successor. Nomura's new president, 55-year-old Hideo Sakamaki, was Tabuchi's right-hand man. But he was almost certainly not the man Tabuchi would have chosen to follow him.

In 1987, Tabuchi shook up the top ranks of the company, forcing older officials to retire and promoting younger men.

"Wanna buy an umbrella?"

But for the scandal, one of them would probably have succeeded him.

Title fight

■ Watch out for fights at the Café Royal this morning.

In one corner Brent Walker, the creation of former boxer George Walker, is holding an extraordinary general meeting of shareholders, while in another boxers Nigel Benn and Kid Milo are holding a news conference ahead of their fight next week. It is hard to tell which meeting will be more acrimonious.

Trusting

■ The cynic might be forgiven for thinking that someone was preparing the groundwork for another terrible set of figures from the poor old TSB.

First soften up the City with rumours about horrendous losses at the group's luckless Hill Samuel merchant bank. Second, come out with a set of interim results which are not quite as bad as feared (that means the TSB makes a token profit). Finally, heap lots of blame on an old management which has been replaced. With luck the share price might even end the week higher than it started.

Michael Lever, the Smith New Court banking analyst who triggered many of the news stories with his "horror story from Hill Samuel" research report, disclaims any special knowledge. And the TSB denies that there have been any special briefings. "We have a strict policy on information which conforms with the regulatory requirements," says spokesman Graham Wallace.

Of course.

Muckraking

■ The name of the Hebridean island of Muck, to which Observer alluded last week, has a long history of giving trouble. Dr Samuel Johnson, who met its laird when touring the Highlands in 1773, noted that it was the custom to address lairds by the name of their possessions. He added that the island's owner, not liking either Muck or the correct version Muack, "has endeavoured, without effect, to change it to Monk."

Downfall

■ What's to be done about White House chief of staff John Sununu whose improper modes of travel threaten to bring him to earth with a bump?

The man most tipped to take over his job is plain-spoken Illinoisian Samuel Skinner, who has performed admirably in his time as US transportation secretary.

But Washington wiseacres are suggesting that, instead of having one replace the other, the two men should simply swap posts. That way, Sununu could travel as much as he likes on whatever he fancies, and it would all be part of the job.

Danger of symbol over substance

Stefan Wagstyl questions whether the resignations of two Japanese securities chiefs will boost reform

The resignations yesterday of the presidents of two of Japan's big four stockbroking groups sent shock waves through the country's financial community.

The public humiliation of Mr Yoshihisa Tabuchi, president of Nomura Securities, and Mr Takuya Iwasaki, his counterpart at Nikko Securities, who announced their own resignations, spread gloom among brokers, bankers and fund managers alike. "The misfortune of my neighbour is my own misfortune. This is bad for us all," said Mr Yoh Kurosawa, the president of the Industrial Bank of Japan (IBJ).

The scandals which have cost the two men their posts at the top of Japanese finance were not isolated events. Their roots run deep in the country's securities industry. Mr Ryutaro Hashimoto, the finance minister, yesterday pledged reform – but it is by no means certain that his officials have the power to enforce change. The danger is that the sudden resignations will be more symbol than substance.

The Recruit stocks-for-political-favours affair of 1989 showed that the Japanese are capable of generating enormous passion about financial wrongdoing. The perpetrators are required to stage a symbolic sacrifice, usually resignation. But real reforms are very slow to emerge. Over time, the scandals fade. The Japanese seem to tolerate this pattern for two reasons: first, the lack of an idealistic moral tradition in which right and wrong are clearly distinguished; second, strong economic growth undermines public willingness to complain.

While deregulation and competition transformed the New York stock market in the 1970s and London in the 1980s, the creation of truly open markets in Tokyo is still awaited in the 1990s. Will the world's largest financial club continue to be run largely for the benefit of its members?

The events which played the biggest role in the resignations were the two groups' dealings in the late 1980s with Mr Susumu Ishii, the former chairman of one of Japan's largest organisation's of *yakuza*, or gangsters, and an active stock market investor.

In addition, Nomura and Nikko confessed to having compensated large corporate clients for trading losses last year and in the late 1980s. Yesterday, Daiwa Securities and Yamaichi Securities, the other two of the big four brokers, admitted having done the same, amplifying similar confessions they made last year. Tax officials have found evidence of payments by the big four totalling Y65bn (£265.3m) over 1988-90, but say there could be more.

The origins of both scandals lie in the connections between brokers, investors and finance ministry officials which surround the securities markets.

The Japanese Securities and Exchange Law drafted soon after the end of the second world war is a vaguely-worded document, which specifies few offences. Many things are left to the discretion of finance ministry officials, who see their job as fostering the health of the industry. Often they scold and punish; but they also offer encouragement and advice. Through the 1980s, the ministry did much to make the market more transparent – not least to satisfy the demands of the US and other foreign governments. Officials recognised that the growth and internationalisation of the Tokyo stock market meant it no longer should be managed as a private club.

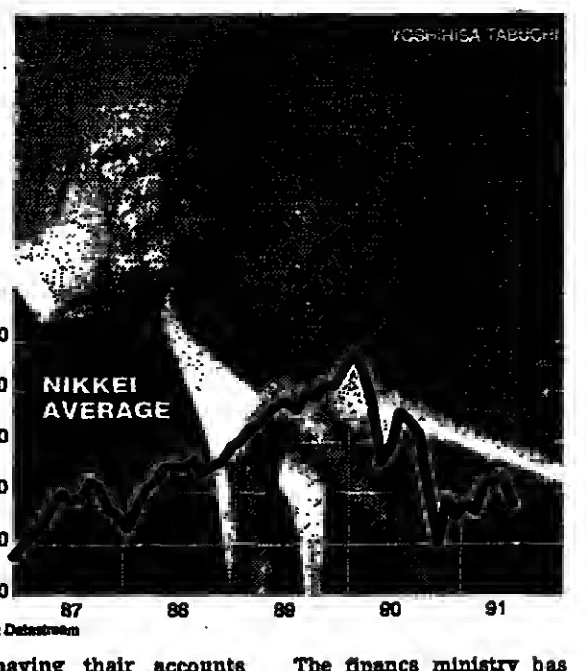
The measures passed by the finance ministry had some effect: insider dealing was outlawed; a 5 per cent disclosure law has forced out into the open stakes held by various secretive groups – including gangster organisations; tighter rules on new issues prevented a repetition of the wrongdoing involved in the Recruit scandal; companies and individuals have been prosecuted for securities-related offences, chief among them Mr Mitsuhiro Kotani, the head of a speculative investment syndicate who has been charged with stock manipulation.

Equally important, ministerial pressure plus competition from newly-admitted foreign brokers has cut the big four groups' share of Tokyo stock exchange commission income from 42 per cent in 1986 to 33 per cent in the year to March 1991.

However, the finance ministry could not prevent the abuses caused by the growth of Japanese stock prices that sent trading volumes soaring in the late 1980s. In the heady atmosphere of the bull market, even investors who were worried about certain practices – such as having their accounts traded too often by brokers – rarely complained.

Also, the flood of investors into the market gave brokers plenty of opportunity to hide transactions done for the likes of Mr Ishii or Mr Kotani. In any case, dealing on behalf of such people is not in itself illegal. The main risk seemed to be a reprimand by finance ministry officials.

The mood changed with the collapse of the bull market early last year. The plunge in prices has itself exposed the fact that the big four paid out compensation to clients. It has also generated public criticism of financial companies, for allegedly helping the rich to profit from increases in stock and land prices, at the expense of ordinary people unable to buy their own homes.



Source: Datastream

Real reforms of the financial system are very slow to emerge in Japan. Over time, the scandals fade

The finance ministry has promised to tackle specific abuses, including compensation payments, which it will ban by law, rather than by ministerial edict. It will also prohibit brokers from acting as fund managers for big investors. It will press on with the wholesale reform of the barriers which keep banks out of the securities industry – the Japanese version of the Glass-Steagall Act in the US. From spring 1993, IBJ and others will be free to compete in key areas with Nomura and the rest. Competition from banks should break some of the cosy agreements between brokers and favoured clients.

But will these changes be enough to create a really transparent market? Many doubts remain. One is the continuation of fixed commission payments, which limits scope for open competition among brokers and, not surprisingly, leads to less healthy forms of rivalry, such as offering insider tips, and no-loss guarantees. Another concern is the power of the big four houses. Even though their own share of Tokyo stock exchange revenue has fallen, their affiliates have boosted business so the combined total is still more than 50 per cent. For example, Nomura's corporate family includes Kokusai Securities, the fifth-largest brokerage in terms of revenue.

The reach of these affiliates penetrates related industries such as property, art, finance and computer services. These are the brokers' version of *keiretsu* – the industrial groupings which dominate some parts of Japanese commerce. It is only natural that group companies should generate business for each other and do favours for each others' clients: natural but often against the interests of fair and open markets.

There is also the problem of the finance ministry itself. Steeped in a tradition of fostering the industries it regulates, it finds it difficult to stand back from its protégés. But that, says a leading Japanese fund manager, is exactly what the ministry must do to create public confidence in the markets. "Officials need to be arms' length regulators."

Some brokers say deregulation has already loosened the ties between the ministry and companies. But others say this is not true – the mass of changes involved in liberalisation has created a raft of new discretionary powers.

Ideally, Japanese investors themselves should demand change. Some institutions have been critical of aspects of the securities industry, notably attacking the big four brokers' dominance. But too many Japanese fund managers – many working for broker-affiliated companies – like the current cosy relationships. More transparency would lead to greater competition among fund managers. Weak companies would not welcome such pressure.

The best hope is that yesterday's resignations of Japan's two most powerful securities chiefs will give the reform process a fresh impetus. But the danger is that the reasons for their departure will be too quickly forgotten. For example, Mr Noboru Takeshita, who resigned as prime minister to take responsibility for the Recruit scandal, is discreetly campaigning to be returned to office. Much-vaunted political reforms, though under almost continual discussion, have yet to be enacted.

Economics and finance differs from politics in that its boundaries are international, so foreign pressure can be applied to effect big changes, as has happened with import liberalisation in Japan. But experience shows that while foreign pressure can bring about great changes in rules, it does not always change underwritten codes and practices.

Joe Rogaly

Rao's tough agenda

India has squeaked through what some of its politicians were wont to call a "festival of democracy" with one national leader assassinated, 100-plus civilians killed in election riots, and an inconclusive result. The Congress party, which must bear the primary responsibility for the republic's failure to live up to its post-independence potential, will take office under the prime ministership of a frail and elderly apparatchik, Mr Narasimha Rao. The Hindu revivalist Bharatiya Janata Party has become an effective, not to say formidable, opposition. Thus has fate condemned this huge and important sub-continent to a period of uncertainty and procrastination while its cohesion continues to be threatened and the economy continues to under-perform.

The most urgent priority is a quick settlement with the International Monetary Fund to prevent a default on foreign debt repayments. That should in theory be easy: all that Mr Rao and his new cabinet have to do is accept the Fund's admittedly stringent terms, including necessary cuts in the budget that were cynically exploited by Congress to bring about the downfall of the previous government. In practice you never know; Delhi has no option but to bow to the IMF, but if it is true to form it will haggle hard, against Fund officials who must realise that they would do no one any good by softening the terms.

We must assume, however, that a deal will be cut. It is also possible to be mildly optimistic about the new government's economic stance. It will not liberalise the economy to the extent necessary, but on this issue the election campaign, and its outcome, can be read as marking a rightwards shift away from the Nehru socialism that has smothered India's creative and entrepreneurial abilities. This is likely to result in some movement towards the market, but nothing substantial.

What is not on the agenda is a programme of privatisation and trust-busting, a purposive defenestration of the Delhi-centred bureaucracy and a bonfire of controls. A comparable strategy might or might not be the salvation of the Soviet Union if President Mikhail Gorbachev can bring himself to work one out; in India it could do wonders for a country that has the human resources to turn itself into the most powerful go-go economy in Asia west of the Korean peninsula. The political dimension likewise needs urgent attention. The recent election could not be held in the Punjab, owing to the continuing violence there, both between Sikh moderates and Sikh extremists and between the latter and government forces. The slaughter of innocents by terrorists persists. Neither Kashmir nor Assam has been pacified. The world was alerted to the tense situation in Tamil Nadu by the

Delhi has no option but to bow to the IMF, but if it is true to form it will haggle hard

assassination of Mr Rajiv Gandhi while on a visit to that state. Now Uttar Pradesh, formerly a Congress stronghold, is to be governed by the BJP. If the Hindu revivalists choose to press ahead with their plan to build a temple on the site of a Moslem mosque at Ayodhya, then Delhi, governed by Congress, would be at odds with Lucknow, governed by the BJP. The revivalists are soft-pedalling on the temple plan, but it has not been withdrawn.

At some stage India will have to address itself to the necessary decentralisation of its central government's powers. The republic could give federation a bad name; Delhi exemplifies the worst nightmares of those who fear a European superstate run from Brussels. It is likely that serious debate on decentralisation will begin if, as some Indian observers believe, we are now witnessing the terminal decline of the Congress party. Its share of the vote fell from 39 per cent to 37 per cent in the election, in spite of the sympathy vote that swung its way after Mr Gandhi was murdered. The BJP doubled its share, to more than 25 per cent. Congress, once the national unifying force, is being encircled by opposition parties.

But there is more to it than that. There is a deep division in Indian society, between a homogenising elite speaking English, the Esperanto of the upper orders, and a vast lower order population looking and speaking with an intense vernacular hostility against some of the consequences of certain forms of capitalist development. The words are not mine, but those of Mr Sudipta Kaviraj of the centre for political studies at the Jawaharlal Nehru university in New Delhi. As I understand Mr Kaviraj's closely-argued recent paper (Institute of Development Studies Bulletin Vol 21, no 4, Sussex University), he believes that the more genuinely democratic India becomes, the more likely it is that ordinary Indians will become less willing to conform to the principles of a *secular democratic* state as fashioned by Nehru and the other Congress founding fathers.

To my way of thinking this helps to account for the rise of the BJP, although that party is a curious mix, containing right-wing (some say *neo-fascist*) extremists among its fringe supporters and nationalist free marketeers, if that is not a contradiction in terms, at the centre. The Hindu movement is likely to take the secularist Congress head-on. There is also room for fissiparous tendencies among the *co-religionists*, since they do not share a common language, and vast regional disparities divide them. And then – but that is a whole other story – there is the politics of caste.

There is not much that the rest of us can do about the fate of *these 850m people*. It is, after all, an amalgam of ideas borrowed from the post-war British Labour party and Stalin's Russia that has done so much damage to modern India to date. We had better keep quiet and keep our fingers crossed. After all, India, and even the much-maligned Delhi government, has proved gloomy outsiders wrong on many occasions in the past. Here's hoping it manages to do so once again.

LETTERS

Federation and majority rule

From Mr Ota Adler.

Sir, Dr Ann Robinson is mistaken in claiming (Letters, June 21) that proposed constitutional arrangements for European political union are to be based on pure majority rule. The weighted majority which applies now and is proposed to continue takes account of diverse sizes of member states. It is similarly reflected in the composition of the European parliament. Nothing less would be acceptable if the rights of smaller states are to be protected. Federal constitutions result from compromises which take account of specific circumstances of federating states.

The proposed European federal union will be *sui generis* and not a mirror image of the US, Canada or Australia, to cite soma federations which have been successful bnt which each having different constitutional systems.

Ota Adler,
13 Chester Square,
London SW1W 9HH

The facts of putting new life into water industry

From Mr Roy Watts.

Sir, Against the murky backcloth created by many ill-informed viewe on tha water industry over the past few days, I believe some factual light is needed.

In my careers in the airline and water industries I have seen at close range the serious effects of under-investment by governments of all shades in major industries.

Standards fall, the customer suffers and costs rise regardless. Innovation is discouraged. Good management is impossible.

Today capital from customers and eharehoIders of Thames Water, at the rate of more than £1m every day, is reviving this industry to serve its customers now and into the next century. Competent managers now have the tools to do the job.

The facts are there for those who seek them:

■ The £250m London water ring main is more than half complete, on budget and ahead of schedule, to bring water to Londoners for many years to come;

■ Advanced water treatment, costing £480m and able to provide even better drinking water than we have today, is being developed apace;

■ Hundreds of sewage works are being re-equipped to high environmental standards with a £250m programme.

There is more, much more – £4bn over the next 10 years from Thames Water alone. Yet while we tackle this large task, Thames Waters offers an excellent water and sewerage service that is the cheapest in England and Wales, and among the cheapest and best in Europe.

Britain's water industry needs bow its head to no-one.

Roy Watts,
chairman,
Thames Water,
14 Cavendish Place, W1M 0DJ

Airbus and subsidies

From Mr Volker Heegemann.

Sir, The US would obviously prefer to limit tha scope of review of subsidies to Airbus to the provisions of the subsidies codes as these, at first sight, appear to improve the US chances of demonstrating that the subsidies are trade-distorting prohibited ones. However, contrary to wbat you stated ("Airbus to fight US moves on *subsidies*", June 20), the Gatt secretariat does not issne any opinion on the proper forum of a dispute.

It is worth repeating that the code on trade in civil aircraft was negotiated as the more specific agreement, and that its article 6 contains pertinent provisions on subsidies, supplementing those of the subsidies code. Thus, it would not be surprising if a dispute settlement panel in this case would interpret the provisions of the subsidies code in the light of the code on trade in civil aircraft, and this regardless of whether the US succeeds in limiting the terms of reference to the subsidies code.

Indeed, international rules of treaty interpretation require that account be taken of the context of an agreement and of subsequent treaties between the same parties. It would be contrary to the *bona fide* if one party tried to obtain by forum shopping a result which it could not obtain under the more specific rules.

Volker Heegemann,
Triebweg 119,
D-7000 Stuttgart 30,
Germany

Bridging the academic/manufacturing gap

From Dr Bruce Smith.

Sir, I was surprised to read in his article "No chance of an even match" (June 18) that Charles Leadbeater believes that the UK has no organisations such as the German Fraunhofer institutes, which bridge the gap between the public academic sector and the private manufacturing sector.

In fact, the member companies of the Association of Independent Research and Technology Organisations in the UK, whose combined annual turnover exceeds £300m and who in total employ more than 9,000 staff, carry out just this function to the great benefit of UK manufacturing industry.

It may be that Mr Leadbeater was referring specifically to the fact that the Fraunhofer institutes enjoy the benefit of substantial public sector funding which independent research and technology organisations in the UK do not.

Bruce G Smith,
president elect,
Association of Independent Research and Technology Organisations,
Hill House,
1 Little New Street, London EC4

Consistency of comment on Labour education policies questioned

From Mr Jack Straw MP.

Sir, Your leader, "Labour's education" (June 4), said more for the inexperience of those who cobbled it together than it did either for Labour's education policies, or for consistency with the position previously taken by the FT.

Last March, for example, the FT said ("Labour's plan for training", March 14 1990) of our 16-19 policy statement, Investing in Britain's Future, that it was "a spirited attempt to seize the initiative in a sphere where government thinking remains muddled". It said with approval that our programme to replace three subject A-levels ("too narrow even for the brightest academic students") with a five-subject Higginson A-level reflects "an emerging consensus among educationalists and employers" and seemed to support the idea of "making some form of training compulsory".

This time, we are told that similar key elements in our recent, more detailed document, are "misconceived", and the leader writer continues his curious off-beam obsession with our, and the CBI's, proposals for "core skills".

Few newspapers did more to expose the inadequacy of student loans than the FT. Now we are criticised for wishing to abandon this scheme, which is both reducing financial support for students in need, and costing the taxpayer more than the grants scheme.

In leaders in 1987 and 1988 the FT was highly critical of opting-out ("Hasty reform of education", September 22 1987, and "Prioritiee for UK schools", May 12 1988). The government, the FT said, was making "policy on the run", "slum and sink schools left behind would find their problems aggravated and their reputations diminished". Opting out, the FT then said, was "ill-thought-out and peripheral to the central issue of raising standards". Now we are told that opted-out schools are "popular and constructive efforts to extend choice".

There is no recognition of the FT's earlier objections, nor ours, that opting-out is making the planning of schools and colleges, and the removal of 2m eurplus placee, well nigh impossible.

It is to the "central issue of raising standards" that much of Labour's policy is directed. But our policies in this area were simply ignored by your leader writer, to make his highly tendentious case.

Jack Straw,
House of Commons,
Westminster, SW1

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES
Tuesday June 25 1991

Polish president threatens 'a little less democracy' in argument over voting procedure

Walesa may dissolve second chamber

By Christopher Bobinski in Warsaw

PRESIDENT Lech Walesa's clash over Poland's electoral law with the Sejm, parliament's lower chamber, has brought him to one of the most important decisions of his career. What he does next could well determine the country's prospects for a democratic future.

He said as much to an applauding crowd on Sunday afternoon on the steps of St Brigid's vicarage in Gdansk, his old Solidarity stronghold. "I'm on the borderline between sticking with democracy and pluralism or having a *little less democracy*".

Today, he sets off to sound out public opinion on whether he should dissolve the Sejm and hold elections on his own terms, or accept a law passed by a parliament he says is flawed because it was created in a compromise with the communists two years ago.

He had "three variants" in mind, he said on Sunday. One is dissolution of parliament; he refused to reveal the others.

The point at issue is obscure. Mr Walesa wants voters first to vote for a party and only then be given the option of choosing individual candidates on the relevant party's list.

He says his way will bolster party discipline and help create stable government majorities. On Friday, over two-thirds of the Sejm defied him and voted for an electoral law obliging voters to choose both party and candidate.

Among his main opponents are former communists, guaranteed 65 per cent of the Sejm's 460 seats in the April 1990 round-table accord, and his own former Solidarity supporters such as Mr Bronislaw Geremek and Mr Adam Michnik. Mr Geremek pointed out that the honour and independence of this parliament, and of future parliaments, were at stake. Mr Walesa's clash with the Sejm, six months after his election as president, comes at a critical time for the economy, with the polls showing optimism about the future at a low ebb.

Mr Walesa's mounting frustration, and the anger he showed on Sunday, is mirrored by last week's opinion polls. He has slipped 6 percentage points in a month and is outdistanced by his arch-rivals, such as Mr Michnik, Mr Jacek Kuron, even the lacklustre Mr Mazowiecki.

Mr Walesa's goal seems to be to trim parliament's powers. "I'll show you how tired people are of all your nattering in parliament," he said on Sunday, urging the crowd to raise their hands in support. Most did.

He may consider dissolving parliament, but by law can only do so if it fails to pass a budget, approve a new cabinet or act to hinder him in his duties. Dissolving parliament would be the first unconstitutional act of his presidency.

Peace signals: Ante Markovic meets Croat member Stipe Mesic before warning against the 'destruction' of Yugoslavia

Yugoslav PM pleads with rebel republics

By Laura Silber in Zagreb

MR Ante Markovic, Yugoslavia's prime minister, yesterday warned of economic catastrophe and violent ethnic clashes if Croatia and Slovenia carry out plans to declare independence from the federation later this week.

In a desperate attempt to hold the country together, he told the Croatian parliament: "The federal government will use all means available to stop the republics' unilateral steps towards independence."

The only instrument available to the weakened federal government to stop secession is the Yugoslav Peoples' Army. So far the federal army has remained silent on the independence plans, although it has said in the past it would not stand idly by and let the federation fall apart.

With the Croatian capital, Zagreb, decked with nationalist flags in the run-up to tomorrow's declaration, Mr Zarko Domljan, president of the Croatian parliament, warned yesterday: "*Croatia will fight the* Yugoslav army if necessary."

The governments of Slovenia and Croatia each held democratic elections last year. Citizens from both republics overwhelmingly voted for independence from the federation following referenda.

Mr Markovic told Croatian deputies: "If the republics secede unilaterally, they will destroy the existing system and face international isolation. The right of secession must result from a democratic process."

Yugoslavia faced two options: "to continue the course of reforms, or to destroy, erode and decimate to the last atom the existing system and build another on its *foundation*."

Mr Markovic said more violent clashes between ethnic groups were probable because Yugoslav citizens were heavily armed.

Political differences over the past year between Serbia, Yugoslavia's biggest republic, and the independence-minded western republics have paralysed Mr Markovic's programme of economic reforms.

Croatia and Slovenia, for instance, no longer recognise tha supremacy of federal laws, while the federal government is still without a budget because the republics have failed to agree on their contributions to it.

Mr Markovic said he was proud to be a Croat, but "ethnic *pride should not mean the* hatred of other ethnic groups". He urged Croatia's parliamentary deputies instead to turn their attention to the economy.

Croatia's government has introduced no significant reforms. The main enterprises have been nationalised, the media have been brought under the direct control of the state, and hard currency reserves have plummeted due to a collapse of the tourist industry.

Imports have remained high although there are few signs of an early economic upturn

Britain's trade deficit worsens sharply

By Peter Marsh, Economics Staff

A SHARP deterioration in Britain's trade performance last month has increased fears that import bills will rise after the the expected recovery takes place.

The deficit on UK visible trade in May was a seasonally adjusted £1.1bn ($1.79bn), excluding oil and erratic items such as aircraft, compared with £858m in April, according to yesterday's Central Statistical Office figures.

The widening in the trade gap at an underlying level was due largely to higher imports, which rose by £147m to £9.5bn between April and May.

For much of last year, the recession brought low demand and a steady fall in Britain's import bill. But over the past six months, imports have stayed stubbornly high, although there are few signs of any upturn in the economy until around the end of this year.

In May, the headline figure for the visible trade deficit, including oil and erratics, rose to £923m from £837m in April. UK exports continued their recent strong performance. They stood at £8.5bn in May, £61m higher than in April.

Opposition politicians said the figures highlighted worries about structural weaknesses in the economy, which might lead to strong import growth in imports once domestic demand starts expanding.

Mr Gordon Brown, Labour's trade and industry spokesman, urged called for new investment incentives and an immediate interest rate cut to help industry, enable UK industry to boost output. The Liberal Democrats said the trade figures showed "just how weak Britain's industrial base has become".

The government concentrated on tha UK's strong export record and the general improvement in the trade performance over the past year. Mr John Maples, economic secretary to the Treasury, said on BBC radio that he was particularly encouraged by the good growth in manufactured exports.

The CSO sprung a surprise by estimating that earnings on invisible trade – from services, government transfers and banking payments – provided Britain with a surplus of £400m in both April and May.

The figure is much higher than the £77m surplus for invisibles which the CSO has estimated for each of the first three months of 1991. According to government statisticians, the higher figure is justified mainly because payments from other countries to the UK to help cover the costs of the Gulf war will be roughly twice as high during the second quarter as in the first. On the basis of the invisibles estimates, which are subject to large revisions, the deficit on Britain's entire current account rose from £437m in April to £523m in May.

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Markets, Page 33
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Punctured pride puts Porsche in the pits

By John Griffiths in London

EUROPE'S prestige car industry yesterday suffered the second puncture to its pride within 24 hours when Porsche, the German sports carmaker, disclosed it was *withdrawing temporarily from* grand prix racing.

News of Porsche's withdrawal came as Jaguar, Mercedes, Peugeot and other European rivals were still smarting from the first outright victory by a Japanese car at the Le Mans 24-hour race on Sunday.

Both events underscore the severity of the Japanese challenge facing Europe's prestige carmakers and raise questions about the ability to survive of smaller specialist producers.

The defeat of Europe's finest at Le Mans by a rotary-engined Mazda 362 has potentially profound consequences for sales as Japan's carmakers seek an increasing share of the world's sports and luxury car markets.

In the past European manufacturers have used the gruelling race as evidence that they still have the edge in engineering and technology over Nissan, Toyota and otber Japanese makers which have previously challenged unsnccessfully at Le Mans.

Mr Max Mosley, president of the vebicle manufacturers commission of FISA, the world governing body of motor sport, said last night: "Le Mans is all about images of reliability, solidity and technology. Using conventional marketing means you could expect it to take a Japanese *manufacturer at least 10 years* to attain the same sort of image as Mercedes. Winning at Le Mans will have shortened that considerably."

Porsche's grand prix participation has been limited to engines, which have been used – with conspicuous lack of success – only by ths Footwork team, owned by Japanese millionaire Mr Wataru Ohashi.

So far this season, the two Footwork cars bave both qualified for the starting grid only once and neither has finished a race.

Porsche said the Footwork team would use Ford Cosworth engines while Porsche carries on further development of car and engine away from the grand prix circuits. Porsche hopes to have the engines competitive in time for the Japanese grand prix in late October.

The grand prix debacle is the second in motor racing for Porsche within the past two years. Last year it made a highly publicised veuture into Indianapolis-style racing in the US but its cars and engines were uncompetitive on the high-speed banked circuits.

Sununu runs risk of political oblivion

By Lionel Barber in Washington

MR JOHN SUNUNU, the imperious White House chief of staff, is on extended probation following fresh controversy over his use of corporate jets and other travel arrangements.

A rare public apology at the weekend probably saved Mr Sununu's job, but the betting yesterday was that another slip could be fatal. Even if he remains in his post, Mr Sununu's power and his relationship with US president George Bush appear to have been seriously damaged.

The immediate cause of Mr Sununu's difficulties stems from revelations about his use of expensive military aircraft for activities ranging from ski *trips to visits to his dentist*. In the past six weeks a steady stream of stories has appeared about Mr Sununu's travel arrangements, including a trip to New York in a government limousine to attend a stamp auction.

Enemies of the former New Hampshire governor – and he has numerous foes inside the White House – have subjected Mr Sununu to a kind of "death by a thousand leaks". The most damaging story came last week when the Washington Post reported that that Mr Sununu'a staff might have misled the White House counsel, or chief legal adviser, about the use of corporate jets which risked violating "conflict of interest" provisions.

But none of these rank as first-degree offences. Members of Congress constantly fly free of charge, courtesy of large corporations and political lobbying groups.

Most observers believe Mr Sununn's travails are the result of his bullying manner and his steady accumulation of power, both of which have reportedly irritated cabinet members such as Mr Nicholas Brady, treasury secretary, and Mr Samnel Skinner, transportation secretary.

Mr Bush is partly to blame. His focus on foreign affairs has allowed Mr Sununu – in tandem with Mr Richard Darman, budget director – to run domestic policy virtually unchallenged. In his role as micro-manager, Mr Sununn dresses down speech-writers, belittles members of Congress, and regularly thumbs his nose at the Washington press establishment.

His snpporters point out that Mr Bush, whose work-habits are often as fractured as his syntax, needs a disciplinarian chief of staff. The chief of staff's other big selling-point is that he serves as a lightning rod for conservatives who have never treated the president as one of their own.

All this still leaves unexplained why Mr Sununu, whose job is primarily administrative, helieves it is so important to travel ontside Washington to attend local Republican party rallies and fund-raisers.

Some critics suggest that his aim may be to build up enough contacts to run for the White House in 1996. More plausible is the view that Mr Sununu wants a prominent role in Mr Bush's re-election campaign in 1992 and is therefore acting as a quasi-national Republican party chairman.

Mr Bush, whose instinct is to stick by his uwn staff, owes a special debt to Mr Sununu because he is widely credited for helping him win the crucial primary election in 1988, salvaging his campaign.

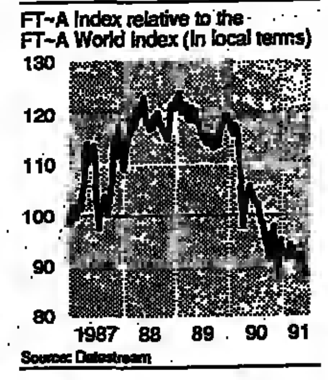
THE LEX COLUMN

Fresh tremors from Tokyo

The scandals in the Tokyo aecurities industry could scarcely have come at a worse time. Such abuses have happened before and doubtless will again. The difference this time is that they come in a falling market. In the past three weeks, the Nikkei index has dropped by 8 per cent, equivalent to 200 points off the FT-SE or 250 points off the Dow. More important, the Tokyo market has been falling relative to other markets for 16 months. Compared with the FT-A World Index, it is now back precisely where it was five years ago, having gone through the cycle of speculative boom and bust two years behind everyone else.

FT-SE Index: 2,458.3 (-29.2)

Tokyo



Source: Datastream

The trouble about the latest downward lurch is that it risks putting fresh pressure on the capital adequacy of the Japanese financial institutions. For other world markets, this is once more raising the familiar spectre of the repatriation of Japanese investment funds and the recalling of Japanese bank loans. One cannot he exact about the level at which this becomes a danger: but on some accounts, the Bank of Japan would see yaaterday's approach to 23,000 on the Nikkei as risky already.

If the system were to show serious signs of strain, the Bank could simply slash interast rates. But in terms of broader monetary policy, this would be rather at odds with the continued rise in the dollar. On a more basic level, in the past 18 months the Tokyo market has shown itself vulnerable to an extent unknown in the previous quarter century. It may be an exaggeration to say that the market will never be the same again. But it is certainly finding fundamental values hard to re-establish. Foreign investors, furnished with the latest evidence on how the market really works, may ask themselves whether it was ever based on fundamentals in the first place.

UK economy

The latest clutch of UK economic statistics may offer some evidence that the recession is at last bottoming out. But there are also further disturbing signs that the recovery, when it comes, will be anaemic. Gross corporate trading profits as defined by the government were 22 per cent down in the first quarter from their peak at the end of 1988. While part of the drop is clearly cyclical, it is also a measure of how far the corporate sector has borne the brunt of disinflation. This trend will have to be reversed to produce a revival in investment and sustainable growth, but that will be exceedingly painful in the straitjacket of the ERM. It will require a sharp reduction in unit labour costs, in turn implying a prolonged and savage squeeze on real wages.

That is one more reason why monetary conditions may have to remain tight, even though the CBI's latest survey of manufacturing output prices points to good news on the inflation front. Although the equity market is now well aware of the short-term constraints imposed by the exchange rate, it may not yet fully have digested the possibility that the promised rebound in corporate earnings next year will be aborted.

Even if the CBI is right that manufacturing output will fall more slowly over the next four months, the recovery thereafter is unlikely to be strong enough to generate much of a boost to productivity. It is disquieting that even the merest glimmer of light at the end of the tunnel has produced a deterioration in the trade figures, with the visible trade deficit, excluding oil and erratic items, rising by £243m to £1.1bu between April and May.

UK drinks

The recognition that Test cricket is not the only victim of a wet summer was one reason why shares in Bass, Allied Lyons and Grand Metropolitan fell twice as far as the Footsie yesterday. The other was justified fear that EC finance ministers would agree minimum rates of excise duty on alcohol, thereby pushing up the price of Scotch whisky in Mediterranean markets by £2.50 a bottle.

Spaniards and Greeks have been among tha most enthusiastic Scotch drinkers in recent years, doubling their consumption since the mid 1980s. Along with Italy and Portugal, where excise duties are also below the proposed EC minimum, these two countries accounted for a mouth-watering 14 per cent of all Scotch knocked hack in 1990. GrandMet, whose J and B Rare accounts for one third of the Spanish market, and Allied Lyons, whose Ballantine brand boasts a 25 per cent share, are likely to be among those compenies worst hit if this heady growth comes to an end. Guinness, on the other hand, which receives four-fifths of its pre-tax profits from spirits, has always had a relatively weak position in southern Europe. Its shares yesterday merely retreated in line with the market.

Whatever the special pleadings of the Scotch whisky industry, minimum excise duty rates look inevitable if trade distortions are to be curbed once EC borders disappear in 1993. Although negotiations ware continuing in Luxembourg last night, it looks unlikely that the UK government will go to the wall to defend the Scotch prodncers.

BT

The messages emanating from the government and the City on how best to conduct tba secondary sala of BT shares have been well and truly scramblad. Confused investors ahould close their ears until the signals are clearer. If Whitehall does away with underwriting, so much the better for taxpayers. After all, it cost a great deal of their money to float BT in the first place. Bnt one wonders whether tbe government is simply trying to drive underwriting fees down, rather than ont. Underwriters saved the BP sale in 1987. In the event of a market collapse this time, a deal without underwriting would have to be postponed, no doubt costing much more than the suggested £80m fee.

As for the idea of selling shares to the public at a discount to the prevailing BT price, this is not innovative but merely obvious. Nor is it likely to achieve the objective of widening tha shareholder base. Presumably any discount cannot be so large that it puts existing shareholders at a disadvantage. At best, it might offer investors the chance to huy new shares withont the equivalent of dealing costs. That scarcely looks enough to draw in an audience hooked on a diet of instant returns.

WORLDWIDE WEATHER

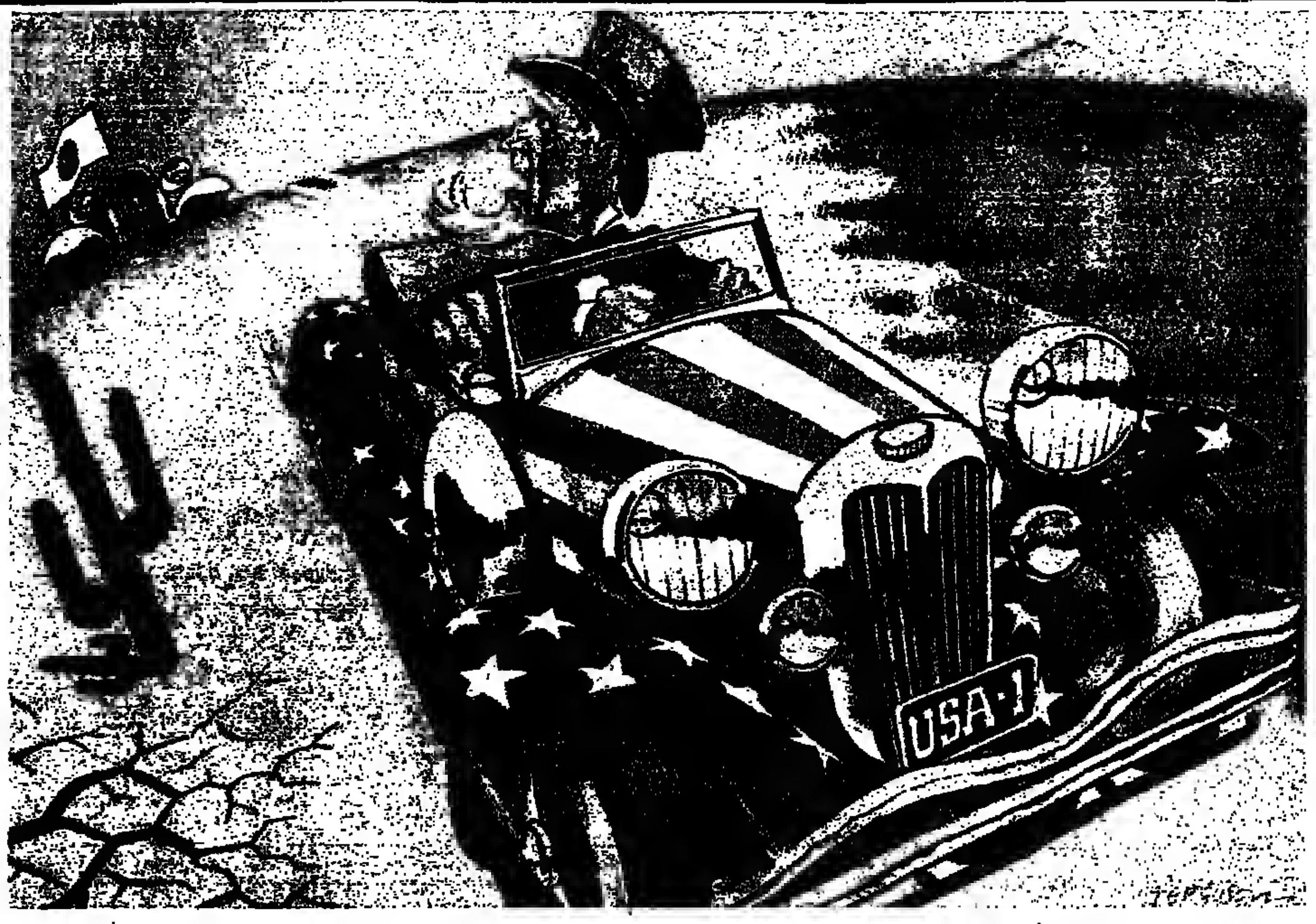
		°C	°F
Ajaccio	S	25	77
Algiers	S	26	79
Amsterdam	F	16	61
Athens	S	29	84
Bahrain	S	33	91
Bangkok	C	32	90
Barcelona	S	27	81
Beirut		–	–
Belfast	F	19	66
Belgrade	F	30	86
Berlin	R	22	72
Biarritz	S	23	73
Bombay	C	33	91
Bordeaux	F	26	79
Boulogne	C	14	57
Brussels	C	17	63
Budapest	F	30	86
Buenos Aires	F	16	61
Cairo	S	33	91
Cape Town	F	16	61
Caracas	F	31	88
Casablanca	S	25	77
Chicago	S	19	66
Cologne	F	19	66
Copenhagen	R	12	54
Corfu	S	28	82
Dallas	S	23	73
Dublin	C	13	55
Dubrovnik	S	28	82
Edinburgh	C	14	57
Faro	S	27	81
Florence	S	28	82
Frankfurt	C	21	70
Geneva	S	26	79
Gibraltar	S	23	73
Glasgow	F	17	63
Helsinki	C	17	63
Hong Kong	C	24	75
Innsbruck	S	23	73
Inverness	C	15	59
Islamabad	F	38	100
Istanbul	S	24	75
Jakarta	F	33	91
Jersey	C	16	61
Johannesburg	S	16	61
Lima	C	20	68
Lisbon	S	29	84
London	R	14	57
Los Angeles	C	16	61
Luxembourg	C	19	64
Madeira	S	23	73
Madrid	S	33	91
Majorca	S	28	82
Malaga	S	24	75
Malta	S	30	86
Manchester	C	17	63
Manila	C	33	91
Melbourne	S	18	64
Mexico City	C	22	72
Miami	F	25	77
Milan	S	28	82
Montreal	S	18	64
Moscow	S	27	81
Munich	F	25	77
Nairobi	F	23	73
Naples	S	26	79
Nassau	C	33	91
New Delhi	S	37	99
New York	S	20	68
Nice	S	23	73
Nicosia	S	27	81
Oporto	S	24	75
Oslo	F	16	61
Paris	C	20	68
Peking	T	26	79
Prague	R	19	66
Reykjavik	C	11	52
Rhodes	S	29	84
Rio de Janeiro	R	29	84
Rome	S	26	79
Salzburg	F	20	68
San Francisco	C	12	54
Seoul	R	26	79
Singapore	S	32	90
Stockholm	F	19	66
Strasbourg	F	24	75
Sydney	C	16	61
Taipei	R	25	77
Tangier	S	32	90
Tel Aviv	S	27	81
Tenerife	F	29	84
Tokyo	R	22	72
Toronto	S	17	63
Tunis		-	-
Valencia	S	29	84
Venice	S	29	84
Vienna	F	25	77
Warsaw	S	27	81
Washington	S	19	66
Zurich	F	25	77

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

EXECUTIVE CARS

Against a gloomy background of falling car sales there has been a tightening of the competitive screw. Furthermore, the Japanese are challenging the strong grip that European groups have maintained on the world's executive car markets. John Griffiths reports

The party is over, for now



AFTER eight years of expanding sales, the good times have come to an end for executive car makers in almost every market except Germany, where unification continues to allow some growth.

In its latest world automotive forecast report, analyst group DRI/McGraw-Hill expects new car sales sales in western Europe to fall by 2.2 per cent this year, with the executive sector suffering commensurately. In the US, the single most valuable market for executive and luxury cars, the imposition of a luxury goods tax from the start of this year has acted as a damper on sales. And even in Japan, where the European prestige car makers – particularly Mercedes, BMW and Audi – had been enjoying a good sales, virtually all sectors of the car market have gone flat.

Against this background there has been an inevitable sharp tightening of the competitive screw, particularly now that Japanese manufacturers have begun in earnest their formidable challenge to the near-stranglehold European manufacturers have maintained on the world's prestige car markets.

Toyota's Lexus range, a year after its launch, is challenging Mercedes and BMW in volume terms in North America, with Nissan's Infiniti range less successful but still selling in significant numbers. Honda has begun moving into the same sector with new, larger and more powerful saloon and coupe versions of its Legend. Mazda is well advanced with preparations for its own luxury dealer network in North America, codenamed Pegasus, with a recently unveiled model in Japan, the Sentia, as potentially the first of a three-car Pegasus range.

The competitive pressures are continuing the restructuring in the European executive car industry, with Jaguar owned by Ford, loss-making Saab Automobile half-owned by General Motors and Volvo forging an alliance first with Renault and through the Dutch-based Volvo Car BV, with Mitsubishi of Japan.

There is an increasing element of "if you can't beat 'em, join 'em" about the industry. Even Mercedes has let it be known in the past few days that it is talking with Mitsubishi about a joint project for a niche vehicle, an upmarket off-roader to rival the UK's Range Rover.

This emerged at the same time as the German luxury car maker was disclosing a fall of 9 per cent in its pre-tax profits last year – this reflected more the adverse movement in currency rates against the D-mark and the high development costs of the new S-Class cars, just launched, than falling sales. Indeed, in common with other German prestige car makers BMW and Andi, it increased sales last year, against a sharply falling trend for many other producers.

The world market decline is worrying because luxury vehicles are of high value, offer the potential of high profit per unit, and in Europe at least account for a significant sector of the market. According to the Economist Intelligence Unit, large and luxury car sales account for 13 per cent of the market in the UK, 27 per cent in Germany, and 16 per cent for western Europe or well over 1.5m sales a year.

The one consolation for the producers is that the good times of the 1980s have left them in much better shape financially to meet the current downturn, which in any case is expected to be relatively short-lived.

For consumers, there is little but benefit: an ever-widening array of models at prices likely to be held increasingly in check by competition. Manufacturers and their dealers are being obliged to invest heavily in upgrading after sales and service operations to meet the higher standards being demanded by consumers.

Within Europe one of the biggest issues facing manufacturers is pricing, which is the subject of investigations by the UK's Monopolies and Mergers Commission and the EC Commission. They are inquiring in particular whether prices are disproportionately high in some EC markets (most notably the UK) relative to others; whether absolute levels are too high in the absence of unrestricted competition from the Japanese – a move which one study by the UK's National Consumer Council suggests would cut the price of an average car by £2,000 – and whether the EC system allowing new cars to be sold through exclusively franchised dealers is a contributor to high pricing.

The MMC report, due later this year, is expected to influence the EC investigation, the findings of which will not be made known until later. However, the MMC has concluded that some pre-tax prices in the UK are more than 50 per cent higher than in some continental markets. In the executive sector, an example from the still-confidential study is the pre-tax price of a BMW ranging between £9,086 in France to £12,673 in Ireland.

This controversy, in the view of some large dealer groups, seems likely to change the ways in which cars are sold in the EC, through networks of exclusively franchised dealers.

Some dealers believe that, as manufacturers are forced to relax their tight controls on who may sell their cars, so very large dealer groups will emerge operating more like supermarket chains.

What an increasing number of surveys – sparked by the rapidly approaching EC single market – establish beyond doubt is that the company car, particularly at executive level, is deeply entrenched not just in the UK, as a succession of chancellors bent on stamping out the 'perk' car seem to think, but throughout Europe.

With the notable exception of Switzerland, where only one in three directors appear to receive a company-supplied vehicle, most EC countries are not far behind the UK in the provision of executive cars, according to one survey by Monks Guide/Lease Plan.

However, this has not stopped a further sharp turn of the taxation screw in the UK, where 60-65 per cent of cars are sold to the business sector. Higher taxation on the benefit to an executive of the private use of his company car has serious implications for executive car makers. The search for cost and tax savings is expected to lead to much more emphasis on cars of no more than two litres, and priced below £19,250 a threshold for increased taxation.

No less worrying for volume manufacturers with a sizeable stake in the executive car market is the increasing number of executives who could advantageously swap their company cars for salary in lieu, with potential financial savings for the company. Implicit in such a move, were it to become widespread, is much wider choice of cars and possibly a diminution of the dominant role played by cars such as Ford's Granada/Scorpio.

Memories of the 1979-80 oil crisis were quick to fade, as a result of which much of the emphasis within the executive and luxury car sectors during the 1980s has been on ever higher trim and equipment specifications, and ever increasing on-road performance. Senior industry executives within both the North American and European industries say they believe the 1990s will produce a shift in emphasis towards safety, greater fuel economy and environmentally cleaner cars – priorities driven not by market demand but legislation.

As is so often the case, the catalyst for such sea-change is being provided by California, which has some of the world's most acute air pollution problems. The increasingly draconian exhaust emissions standards being set by this important region for all car manufacturers have lifted emissions to the top of manufacturers' concerns, along with fuel economy.

The latter is stimulated by the increasing likelihood of federal US legislation requiring CAFE (corporate average fuel economy) standards approaching 40 mpg by the turn of the century, compared with 27.5 mpg now.

IN THIS SURVEY

Ford Scorpio

Editorial production:
Phillip Halliday
Illustration:
James Ferguson

The UK car market can be divided into the haves and the have nots. **John Griffiths** reports

Tax burden tips the benefit scales

THE UK car market is divided sharply into haves and have nots: those who have cars provided by the company and the 40 per cent or so of drivers who buy their own cars, out of after-tax income.

The have nots are disadvantaged on several fronts. In the current climate of recession, with car advertising pitched heavily towards special offers and discounts in an effort by manufacturers to lift flagging sales, private buyers tend to think they've done well by extracting a 10, 12.5 or sometimes even 15 per cent discount on their purchase.

What they tend not to realise is that most are still helping to subsidise the purchase of cars by business.

Earlier this year the Retail Motor Industry Federation, representing the bulk of the UK's 7,500-strong franchised dealers, published a report pointing out that the volume car manufacturers are increasingly by-passing their dealer networks to do direct deals with some big fleet operators, those buying several thousand cars a year.

Some of those deals, said the RMI report, entailed discounts of 35 per cent or more – double the margin most manufacturers give their own dealers.

Increasingly large discounts on company cars work against private buyers because manufacturers are encouraged to increase list prices by more than the rate of inflation (by over 12 per cent last year) to provide a higher base for the deep discounting to fleets. Worse, the sheer volume of cheaply-purchased company cars decanting into the used car market reduces the resale value of cars bought privately.

The peace of mind factor is a significant benefit to the company car operator.

It includes not having to worry about renewing tax or insurance, usually having the car picked up for servicing by a garage and delivered to home or office, and not having to worrying about the large, unexpected repair bills which can be the bane of a private motorist's life. These have all served to make the car among the most valued of an executive's perks.

Most analyses predict there will be greater selectivity of who will be entitled to cars

The question is, after several years of an increasing taxation squeeze on the company car perk, has Chancellor Norman Lamont's Budget of just under three months ago at last made the tax burden outweigh the benefit?

Mr Lamont's Budget raised the tax scale charge by 20 per cent, but, more significantly, imposed a National Insurance charge on employers for the benefit employees enjoy from private use of company cars.

Even though the tax scale charge to users has risen by 280 per cent since the 1988 Budget, the benefit to most employees is still considerable. The assessed total benefit this year, according to the Treasury, is £5.9bn – but tax paid by employees, many on the 40 per cent rate, is equal to just 25 per cent of that benefit.

In terms of costs to the company, rather than most users, the figures do not look so attractive.

Analyses by accountants Coopers & Lybrand Deloitte, the Stoy Benefit Consulting group and others indicate that it could be financially advantageous for many companies to provide a cash alternative to their executives' cars – even if making the switch can be full of VAT and other pitfalls.

At the highest end of the scale, in the case of senior directors or company chairmen running cars costing more than £29,250, calculations by Coopers show that the company could arrange the funds for such personnel to buy their own cars – of identical specification to that previously provided by the company – and operate them at no financial net loss or gain to themselves, yet still save more than £3,000 a year.

The saving to the company is made possible by the very high assessed benefit directors and executives must pay on cars costing above £29,250 and travelling less than 2,500 miles annually on business, together with the new element of National Insurance contributions payable by the company.

As Mr Russell Thoms of Coopers points out this is an extreme case. Coopers' calculations show that there are marginal savings to be made by companies in buying out the cars of high-mileage users, but in the middle ground, the cost and tax position for the typical manager's car cannot yet be improved by a cash alternative.

Increasingly large discounts on company cars work against private buyers

Savings can be increased by other means, such as opening company accounts at garages for executive-owned cars, rather than reimbursing individuals for the bills incurred – not only because of the greater bargaining power of a company, but because reimbursed bills would attract employers' NIC charges.

Even now, many companies are still in the process of analysing in detail, probably for the first time since the executive car perk began proliferating in the late 1970s, what policies they should adopt post-Mr Lamont's Budget.

Some have made up their minds not to change, mainly because the car is seen as such a valuable tool for attracting or retaining staff. Abbey National, which runs a fleet of several thousand cars, says it has "no intention of changing our company car structure because of the Budget."

Most analyses of the situation facing companies and executives relative to their cars predict that there will henceforth be greater selectivity in terms of who will be entitled to cars; curtailment of free fuel for employees' private motoring; restrictions on price or engine size, and the contracting out of the management of fleets through competitive tender.

The peace of mind factor is a significant benefit to the company car operator

Some snares await the unwary, particularly companies seeking to offer a generous settlement to buy out company cars.

They risk running foul of a judgment (Heaton vs Bell) under which a company's valuation of the cash benefit takes precedence over the official scale charges and could be applied to all other cars in the company fleet, thus raising the tax bills of even executives planning to keep their cars. Even more alarming is the stance being taken on VAT by HM Customs and Excise.

It maintains that if executives are offered a cash option, but only a few take it up, those who choose to retain their cars have opted to accept a supply from the company which is liable to VAT.

In other words, even if just one employee among 1,000 took up a cash option offered to everyone, the other 999 would be subject to VAT at 17.5 per cent on the total sum offered as a cash substitute for the car.

It is not expected to be long before the Customs and Excise view is tested in the courts.

The tax scale charge to users has risen by 280 per cent since the 1988 Budget

The cost of a company car to a British company over 3 years (£)

Source: Coopers & Lybrand Deloitte



	FORD ORION 1.4GL A	B	C	FORD GRANADA 2000GL A	B	C	JAGUAR SOVEREIGN 4L A	B	C
Business mileage	60,000			10,000			6,000		
Private mileage	15,000			26,000			30,000		
Purchase cost (£)*	10,099			14,679			36,400		
Residual	3,506			6,777			19,566		
Running costs**	15,778			16,394			32,255		
Cost of car	15,777	15,777	15,563	16,395	16,395	11,789	32,252	32,252	21,670
Plus: Employers' NIC***	395	328	306	1,014	1,231	1,376	4,446	2,795	1,695
Unrecoverable VAT	42	42	42	105	105	105	158	158	158
Less: Recoverable VAT	(784)	(591)	(591)	(449)	(310)	(310)	(676)	(426)	(426)
Corporation tax relief	5,350	5,523	5,446	5,780	5,954	6,462	12,162	11,758	7,903
Net cost of car	10,079	10,032	9,975	11,285	11,467	12,498	24,017	23,021	15,193
Employee: Benefit of car	3,795	3,155	2,942	9,750	11,841	13,235	42,750	26,877	16,294
Tax due	949	789	736	3,900	4,736	5,294	17,100	10,751	6,519
Additional payment to employee			-213			+1,394			-10,582

*After discount; **Incl. depreciation, maintenance, fuel, insurance and interest. ***Assumes no further increase in employers' NI on car benefit.
A= company owns car B= company funds employee to buy car C= payment to employee leaving him no better nor worse off for financing own car

The effect of the increases in scale charges of the past three years, coupled with the imposition of National Insurance for the first time from next year, have in many cases created a clear financial advantage to companies to buy out the cars of some, at least, of their executives.

The table shows that the strongest argument in favour of such a move applies to highly paid directors operating their expensive, £29,250-plus cars over fewer than 2,500 business miles per annum. In the example of the Jaguar driver the company could provide the director with the funds to buy and operate such a car at no financial net loss or gain to the individual, yet save more than £3,000 per year.

There is a marginal benefit for the company in reimbursing the high-mileage, essential business user (left) for operating his own car. The situation is much more problematical for the middle-ranking executive (centre), where a buy-out would in many cases appear uneconomic.

Column A represents the costs that might be incurred by a company in providing a car for an employee's private and business use, together with the resulting tax liability for the employee. Column B analyses the same costs of motoring from the company's and employee's positions, as if the employee had been reimbursed with the running costs in column B.

Column C indicates the amount of any salary increase and deductions necessary for the employee to be left neither better nor worse off by being paid cash. The deduction can arise because the employee may have a lower tax bill from using his own car at the company's expense than from having a company car.

Peter Lilley: will receive MMC report into claims that car makers charge excessive prices in the UK

Ashley Ashwood

The price of a 2-litre Renault 25TX in the UK (on October 15, 1990) was £11,780 compared with (at the then prevailing exchange rates) £8,840 in Germany, £9,999 in Belgium, £8,809 in the Netherlands and £11,733 in France. The British price was 33.7 per cent higher than the Dutch price

Car makers' pricing policies are under close scrutiny and the various studies are arousing controversy. **Kevin Done** investigates

MMC unravels complex supply monopolies in the UK

CAR makers' pricing policies across Europe and in particular in the UK are coming under heavy scrutiny with investigations launched by both the UK Monopolies and Mergers Commission and by the European Commission.

The MMC report is expected to be sent to Mr Peter Lilley, the UK Secretary of State for Trade and Industry, in early August, but publication of part of the confidential preliminary research conducted for the MMC has aroused serious controversy.

The study prepared for the MMC claims that in exceptional cases pre-tax car prices charged in the UK are more than 50 per cent higher than in certain other European markets, while in general prices are 20-30 per cent higher in the UK.

The Monopolies and Mergers Commission, which is investigating claims that car makers charge excessive prices in the UK, has provisionally concluded that at least two so-called "complex monopolies" exist in the supply of new cars, which "prevent, restrict or distort" competition in the UK.

Its provisional findings challenge both controversially:

● The "gentlemen's agreement" between the British and Japanese motor industries which effectively has restricted Japanese car imports into the UK to less than 11 per cent of the market, and

● Car makers' selective distribution systems.

It would appear that the disparity between UK and continental European car prices are greatest for small cars, but the research prepared for the MMC shows that retail executive car prices are significantly higher.

The MMC has written to 46 car makers and importers in the UK outlining its provisional conclusions and detailing the supporting evidence it has gathered in the last 12 months. The MMC has still to decide whether the "complex monopolies" it has identified, operate against the public interest, and whether the government should take action.

The industry is responding to these findings, before the MMC publishes its final report, but it has been fiercely critical of some of the methodology used by the MMC and its research consultants and has disputed the preliminary findings.

The industry has claimed that previous studies, such as those made by European consumer organisations, have failed fully to take account of important factors that distort prices across Europe such as varying car taxation rates, differing model specifications, exchange rate movements, and discount levels.

Car pricing is a highly sensitive issue for car makers in Europe. The two investigations under way are expected to play a vital role in the European Commission's review of the present "block exemption", which allows car makers to employ selective distribution systems in Europe contrary to EC competition regulations.

The 10-year block exemption, which was granted until 1995, is conditional on pre-tax car prices not varying between EC member states by more than 12 per cent in the long-term and by more than 18 per cent for periods of less than a year.

The line of attack taken by the MMC inquiry to date threatens to undermine long-entrenched restrictive car pricing and distribution practices in the UK and could lead to a revolution in the 1990s in the way cars are retailed.

Under the selective distribution "complex monopoly" the MMC questions a series of car makers' existing practices including:

● The granting of exclusive sales territories.

● Limits placed on the number and locations of dealerships allowed to individual car retailer groups.

● Prohibitions on selling competing makes at the same site.

● Refusing to supply new cars for resale except through the supplier's franchised dealer system.

● Offering in the UK only part of car range available in other parts of the EC market.

● Offering specified classes of customers discriminatory discounts unrelated to cost.

The range of price differentials varies from one car maker to another, suggesting that some have less to fear than others from the MMC and European Commission investigations

As the MMC's 12-month inquiry into the distribution and pricing of new cars in Britain enters its final stage, the motor industry has been made uncomfortably aware that a tide of evidence is building up to suggest that motorists are paying significantly higher prices for new cars in Britain than in other markets in Europe.

Pan-European car price comparisons have proved a minefield in the past, and the car makers have – often with justice – been able to pick gaping holes in the evidence gathered, which at first sight appeared to confirm the casual impression that car prices in the UK are significantly higher than in other European markets, such as Germany, the Netherlands or France.

The latest evidence of excessive UK car prices has been assembled in a study commissioned by the MMC for its inquiry and prepared by Ludvigsen Associates, the UK-based automotive consultants.

The MMC and Ludvigsen Associates have sought in advance to head off the normal industry criticism by trying to develop a methodology that would take account of the most obvious distorting factors.

The industry remains sceptical. Some car makers' independent studies, also carried out in the last 12 months but with different consultants, have come to less worrying conclusions.

These alternative reports have been presented to the MMC and the commission is facing a crucial task in sifting the often contradictory evidence – with the obvious risk that the credibility of its preliminary core findings will be called seriously into question.

The Ludvigsen study has sought to arrive at what it calls comparable "on the road" transaction prices – both including and excluding tax – for a series of 20 different models in four segments of the market: small (Ford Fiesta-size), lower medium (Ford Escort-size), upper medium (Vauxhall Cavalier-size) and large (Mercedes-Benz 190-size), and in six European Community countries: the UK, Germany, France, Belgium, the Netherlands and Ireland.

The methodology it used to arrive at the transaction prices was to telephone at least 50 dealers for each of the models in the six different countries with the conversations about a potential car purchase being conducted in the language of the local dealer.

In order to shed some light on the often opaque and murky world of car buying and dealing it was supposed to be a standard approach "designed to illicit a cash price for a private buyer with no trade-in".

The caller said he was moving to the dealer's area, that he wanted to acquire a new car there, and was seeking the best price for the current specification of the selected car. The instructions were to be persistent in bargaining.

Taking the pre-tax price, adjusted for varying levels of specification, the Ludvigsen study shows that in the executive car segment of the market the price of a 2-litre Renault 25TX in the UK (on October 15, 1990) was £11,780 compared with (at the then prevailing exchange rates) £8,840 in Germany, £9,999 in Belgium, £8,809 in the Netherlands and £11,733 in France.

The British price was 33.7 per cent higher than the Dutch price.

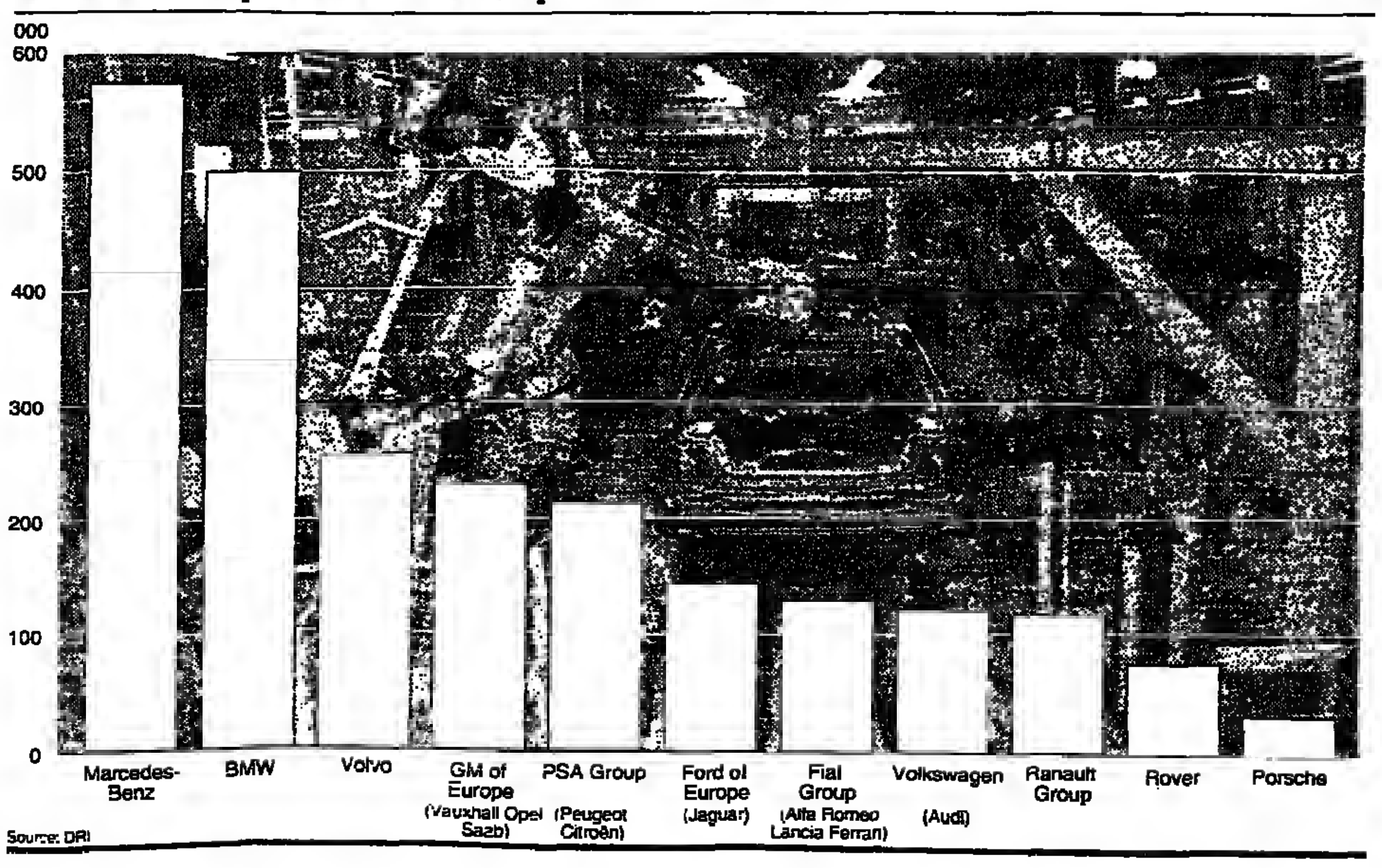
On the same basis the British price of an Audi 100 2.3E four-door at £13,270 was 23.1 per cent higher than the Belgian price of £10,782. The price in France at £14,579 was 9.9 per cent higher than the UK price, however.

The British price for a 2-litre Mercedes-Benz 190E at £15,483 was 20.1 per cent higher than the price in Germany at £12,888. Prices elsewhere were £13,940 in France, £13,627 in Belgium and £13,429 in the Netherlands.

The range of price differentials varies clearly from one car maker to another, suggesting that some have less to fear than others from the MMC and European Commission investigations.

The Ludvigsen study shows, for example, in the executive car segment that the prices for the Vauxhall Carlton GL 2.0i four door (and the equivalent Opel Omega models) are in a narrow band with the British price slightly lower at £11,899 than the prices in Germany, £11,968, France, £12,196 and Belgium, £11,961, and only 6.5 per cent higher than the price at £11,171.

Western Europe executive car production - 1990



Source: DRI

Lexus heads the Japanese charge into the US. **Richard Feast** (left) and **Patrick Harverson** analyse strategies and company policies

Big Three lose high ground

ENGINEERS at one of Detroit's Big Three car makers had heard and read a lot about Toyota's then-new Lexus before they got their hands on one in late 1989.

It proved a very depressing experience. Stripped down, they could appreciate the amount of ingenuity, effort and money that had gone into producing what was Japan's first luxury car. They knew that what they were working on would not match the Lexus. Now, executives at the Big Three talk in terms of producing Lexus fighters. That is an admission that they have lost the high ground. Before Lexus, the popular US impression was that the domestics made the best large, luxury cars and Japan made the best small, economy cars. Japan has proved capable of doing both.

It is all part of a grand strategy by Japanese car makers to plug their models into market gaps where they had previously not been represented.

Simultaneously, other new model introductions by Japanese companies were taking place in sectors covering sports cars, sports-utility off-roaders, pick-up trucks and minivans.

Not that Toyota was the first to create a special brand offering up-market models. Even when Honda introduced its Acura line in 1986, it was merely imitating US manufacturers, which had targeted certain brands to specific customer profiles.

Cadillac is General Motors' luxury range, more expensive than the premium American Buick, "American value" Oldsmobile, sporty Pontiac or Chervolet, GM's volume range which is sold under the slogan, "the heartbeat of America". Unfortunately, badge engineering during the previous few years had blurred their images to all but GM insiders.

Honda was very successful in America by the time Acura was launched. It was the pioneer in transplant production, and its products were rated highly. Its Accord model went on to become the best-selling car in the country.

However, it needed a different brand if it was ever to break out of the mainstream. Acura went on to become a howling success on the basis of just two models, the relatively affordable Integra and the bigger Legend – a model originally developed with Britain's Rover Group.

Acura reached a peak of more than 142,000 sales in America in 1989. It was a year when Volvo, the most successful of the European luxury car importers, sold just under 103,000.

The trend was not lost on the much larger Toyota and Nissan companies. Separately, they were developing their own V6 luxury cars. Both were to emerge as larger and more expensive than the V6 Legend.

Toyota's Lexus LS400 went on sale in the second half of 1989, a few months ahead of Nissan's Infiniti Q45. Both were in the $40,000-$45,000 category, compared with abont $30,000 for the top Legend. Both LS400 and Q45 were supported by cheaper cars which were clearly derivatives of existing Toyotas and Nissans.

While expensive compared with domestic products – Cadillacs and Ford's Lincolns start at about $30,000 – LS400 and Q45 are cheap in relation to their direct European equivalents from Mercedes-Benz, BMW and Jaguar.

As America's recession began to grow, the keen pricing of the newcomers proved attractive to customers. Lexus and Infiniti report that their most traded-in models are from Mercedes, BMW and Jaguar.

Lexus got off to a faster start than Infiniti. It was helped by generally more favourable road test comparisons in American car enthusiast magazines.

Lexus sold 63,500 cars last year, its first full year of sale. This year, with the overall car market down by about 17 per cent, its sales have fallen by under 10 per cent and it talks in terms of selling a similar number to 1990.

It will be helped by introduction this month of the new SC400 V8 coupe, to be followed in September by the SC300 V6 version. Again, they will be sold in price categories much their own. At about $38,000, the SC400 will be below comparable European models and above the domestics.

By contrast, Infiniti was slower at building up a nationwide dealer network. It sold 24,000 cars last year, but projects about 40,000 this year. Sales went up by more than 60 per cent in the first four months of this year.

The large increase is due mainly to the recent introduction of the G20 saloon – a model based on the Nissan Primera made in north-east England. At prices from about $17,000, G20 is a more direct competitor to Acura's Integra.

Acura remains the largest of Japan's second-channel importers. Sales fell slightly to just over 138,000 last year, and it is down another 1 per cent so far this year.

The fall reflects Acura's latest models – as well as keener competition. The new Legend saloons and coupes are larger than their predecessors. At $27,000 to $37,000, they are also more expensive.

In addition, Acura's comparatively low volume NS-X two-seater – at $61,000, the most expensive production car from any Japanese maker – is helping it improve an already high image in the US.

While sales of Mercedes, BMW and Jaguar held up well last year, the growing Japanese presence is beginning to take its toll this year. BMW and Mercedes sales in America in the first four months were down by a quarter compared with one year earlier. Jaguar was at less than half the previous year's.

Meanwhile, Japan's other car makers are moving steadily np-market. Mitsnbishi bas launched its high technology Diamante V6 (known in Europe as Sigma) at a price of about $25,000.

The company, which is still relatively small in America due to its late entry on to the market, says it has no intention of creating a separate sales channel.

Mazda, however, is known to be considering the establishment of a second American sales channel, reportedly known as Pegasns. So far, there has been no formal go-ahead, though the introduction last month of the 929 replacement shows that it is moving upmarket.

The new 929, known as Sentia in Japan, is mnch larger and smoother than its predecessor. Like the Diamante, it has four-wheel-drive, four-wbeel-steering and a V6 engine. It will be priced in America between Diamante and Legend.

Dynamic duo close the gap

WHILE most US companies have a policy of using only domestically-produced vehicles for their company fleets, foreign cars are still the favoured choice of America's senior business executives.

Mercedes and BMW may have ruled the roost for a long time, but their dominance is now under threat from Japan. The dynamic duo of Toyota's Lexus and Nissan's Infiniti, both large luxury models aimed squarely at the American market, are catching up as the most popular executive cars in the US.

The rest of the field is strung ont well behind the German and Japanese products. The British-made Jaguar has supporters, as do the Rover Sterling and Sweden's Saab. But, as has been the case for years, the home-made American products come in a distant last.

The main reason why imports are so popular is status. The prestige accorded to a driver of a foreign luxury car, always regarded as a "classier" prodnct than the US equivalent, is a big appeal to executives, all of whom see their car as a reflection of their rank within a company. No matter how hard General Motors, Ford or Chrysler may try, a big, expensive foreign car will always carry more kudos.

Ms Susan Jacobs of Jacobs Automotive, a New Jersey-based forecasting and strategic planning consultancy, says that the Lexus is in demand because it combines the comfort and luxury of the big traditional US cars with the more aerodynamic styling and firmer handling of the European models. The Infiniti is more of a driver's car, says Ms Jacobs, and styled less traditionally, but like the Lexus, it is competitively priced against the German counterparts.

Many executives are sensitive about the fact that they drive expensive, foreign cars, paid for by their companies. With the country in a recession, and high salaries of top management a controversial issue, few are prepared to talk about their executive cars.

It is easier to find a company fleet manager willing to discuss executive car policy. Mr Pat Sheehan is in charge of company and executive cars at Baxter International, the US pharmaceuticals group. With its 32 most senior executives earning an average $370,000 last year, Baxter's managers are a good reflection of what America's most senior executives want in a car.

Baxter's policy towards executive vehicles has changed substantially over the years. Until the mid-1980s the company's system was relatively simple: there was a ceiling on how much could be spent on a car. In 1986, for example, for all but the most senior staff, the company would cover the leasing costs of cars worth up to $30,000. If an executive wanted a model that cost more, they had the choice of meeting the extra expense.

At the time, the most commonly driven cars were the big BMW and Mercedes models. Jaguars were in demand, and of the few American models driven, the majority were Cadillac or Lincoln. Although the company met the bulk of the leasing, running and maintenance costs, the cars were run almost exclusively for private use. Mr Sheehan estimates that business trips represented about 1 per cent of total use.

This arrangement, standard practice throughout the US, cost the tax authorities a lot of money. The Internal Revenue Service (IRS) expected all companies to pay tax on income spent on company cars used for business travel. Yet many US companies felt that reporting this income to the IRS was not their responsibility, but the employee's, most of whom never bothered to file such details with their yearly tax returns. Consequently, the IRS missed out on millions of dollars of taxes every year.

To rectify this, new tax rules were introduced between 1984 and 1986 which made it the responsibility of the company to report all business use of company cars to the IRS. That meant logging every trip and every mile so that the IRS could levy a tax on the precise amount of private use for each car. The new rules were strictly policed, and any company found not to have fully documented all company car use faced losing the entire tax deduction on its company fleet, which for a corporation such as Baxter, would have totalled $17m a year in the mid-1980s.

Baxter, like thousands of US companies, responded to the new tax rules by replacing its old system with a simple annual allowance included in the payroll and taxed at source, as income, by the IRS.

Mr Sheehan says that today his executives have between $700 and $1,000 a month (before tax) to spend on leasing a car, depending on seniority. As before, many choose to spend more than that. As for their choices, BMW and Mercedes are still the most popular, accounting for about 70 per cent of Baxter executives' cars. But there has been a noticeable trend towards Japanese models.

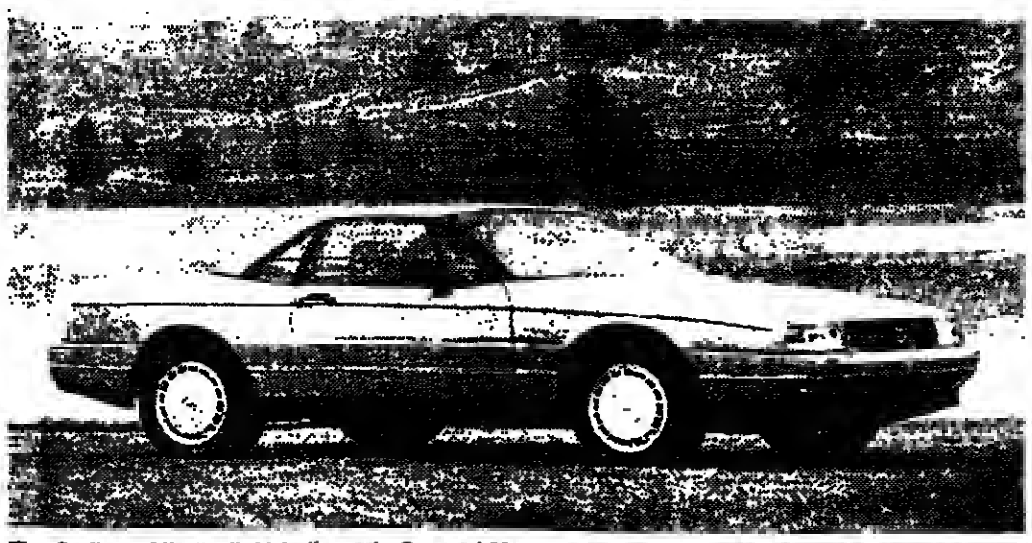
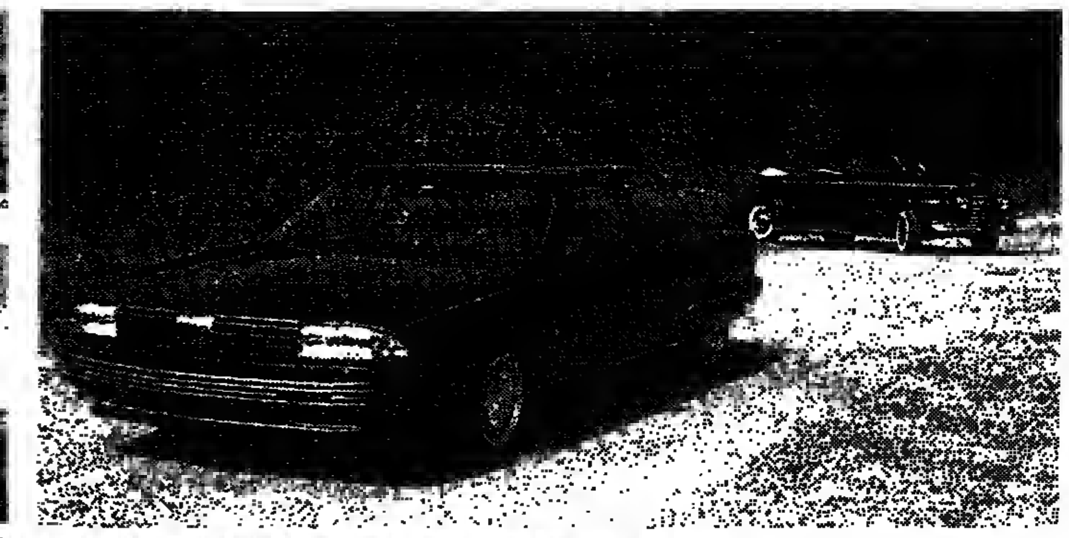
Ever since Baxter's chairman chose a top-of-the-range Lexus LS400 for his own personal use, Toyota's highly successful luxury car has been the top choice among the company's executives, closely followed by Nissan's Infiniti.

The trend towards the big Japanese cars is even more marked at another big US drug company, Bristol Myers-Squibb. Ms Patsy Mance, who manages the fleet of 850 executive cars for Bristol Myers, says that the Infiniti and Lexus have "almost totally wiped out the Europeans". The reason? A combination of better quality and lower price, says Ms Mance. She says her executives feel the BMW's quality has suffered in recent years, and the Mercedes has become prohibitively expensive.

The Japanese cars, in contrast, offer high quality at a relatively low price. It is not just the Lexus and Infiniti that are doing well. Ms Mance says that the Acura Legend and the Toyota Cressida are also well liked. In contrast, American models are still dogged by a reputation for poorer quality.

Bristol Myers' system differs from Baxter's. The company leases its cars for its staff, and expects its employees to keep an exact record of all non-business use, the tax on which is then paid by the company. What they do with the car though, and which car they drive, is left up to the employee. As Ms Mance says: "An executive car is about personal ego."

Lexus: part of a grand strategy by Japanese car makers to plug models into market gaps where they had not been represented

The Cadillac Allante (left) is the only General Motors car priced at more than $40,000. Sales of the revamped Oldsmobile 98 (right) are better than the previous model

■GENERAL MOTORS: buoyed by predictions of a post-recession explosion of luxury car sales

The dawning of the age of the baby boom

GENERAL Motors is bullish about the executive car market and its future in that market.

Mr J.T.Battenberg III, General Motors vice-president in charge of the Buick-Oldsmobile-Cadillac Group, predicts the post-recession years of the 1990s will mirror the post-recession years of the 1980s when industry sales of luxury and large cars exploded.

He points to changing demographics as the reason the luxury market will be strong. GM's aggressive product programme will make it a strong player, he says.

The so-called baby boom generation will age and gain affluence in the 1990s, creating a new market for luxury automobiles. Priorities have shifted toward safety and durability, the environment and value instead of status symbols.

"From our perspective," says Mr Battenberg, "it leads to real significant opportunity for regular and luxury vehicles that General Motors produces."

With the luxury two-seater Cadillac Allante as the exception, General Motors sells no car priced over $40,000. On average, General Motors' large and luxury cars sell in the $25,000 to $35,000 range, making them less susceptible to the US government's tax on cars over $30,000.

In addition, GM's vehicles score well in fuel economy rankings and most are not subject to the recently increased gas-guzzler penalty that particularly hurts European imports.

GM has an extremely aggressive product schedule through 1995 in the luxury market

Already some evidence exists to support Mr Battenberg's theory that GM will do well in the luxury market of the 1990s.

In contrast to the 1980s, GM's newest luxury models are gaining public acceptance. GM began selling the restyled Buick Park Avenue and Oldsmobile 98 last autumn. With no customer incentives during the first eight months of sale, sales for both cars were up from the previous model.

Park Avenue sales for 1991 as of May 20, were up 42 per cent from the same period a year earlier. Oldsmobile 98 sales were up 3 per cent for the same period.

In 1990, according to GM figures, the automaker sold 60.9 per cent of all large and luxury cars in the US. In the early months of 1991, in spite of lower sales for the total industry, GM increased its share of the large and luxury market by 2 percentage points.

"We see continual growth in our penetration of the market through 1995," says Mr Battenberg, though he wouldn't provide figures.

Much of GM's lost market share and drop in North America profits in the 1980s stemmed for the public's rejection of the automakers' high profit margin luxury lines. Anticipating that petrol prices would rise sharply GM embarked on a product plan that called for switching the majority of its cars from rear-wheel to front-wheel-drive, shrinking them in size and cutting back horsepower.

Petrol prices, instead of rising, dropped following the 1980s recession. The luxury and large car market did well, nearly doubling in size during the decade. The car-buying public balked at GM's luxury cars because they were too small, anaemic in power and lacked differentiation from Buick to Oldsmobile to Cadillac.

By the end of the 1980s, General Motors began to make corrections.

Its Buick division, which sells mid-sized to luxury cars, led the change. The division has enjoyed a significant revival. While sales for most companies have been down in 1991, Buick sales have increased 2.1 per cent up to last month. In some periods, Buick sales surpassed Honda and Toyota sales. Buick's market share has hit nearly 7.0 per cent, compared with 5.8 per cent for the full year of 1990.

On average, General Motors' large and luxury cars sell in the $25,000 to $35,000 range, making them less susceptible to the US government's tax on cars over $30,000

Buick's sales and share decline in the 1980s was due, in part, to an unclear image and inconsistent product line.

Buick management decided to return to the traditional characteristics of Buicks from the past, cars that are substantial, distinctive, powerful and mature. Buick renewed emphasis on quality and customer satisfaction. Buick was the only domestic nameplate to rank in the top 10 of product quality surveys done by J.D.Power a market research company in Agoura Hills, California.

The Buick LeSahre was recognised by the company for two consecutive years as the best-built car built in the US, based on surveys of car owners. It was the only domestic car on the list.

By 1995, Buick wants to take 8 per cent of US car market.

GM's flagship luxury division, Cadillac, has been gaining market share as well. Though its sales were down slightly in 1990 from 1989, its share edged higher to 2.8 per cent of the car market, its highest level since 1983.

For the 1990s, Cadillac will gain even more exclusivity from Buick and Oldsmobile with body platforms and powertrains of its own. Cadillac receives a new, exclusive engine in 1992. The engine is a 4.6-litre, 32-valve V8 with dual overhead camshafts. It will first power the Allante, then later be installed in the Eldorado and Seville.

The full-size, rear-wheel-drive Brougham, which had been destined for extinction in the early 1980s, receives a facelift in 1993. The DeVille and Fleetwood will be designed for 1994 and switch to a Cadillac exclusive body platform. They share platforms with their counterparts at Oldsmobile and Buick.

Little change is planned for the two-seater luxury Allante. The car, which has never lived up to sales expectations, receives a slight revision in 1992, but isn't scheduled for a total redesign until at least 1996.

In the meantime, Cadilla continues to search for an entry-level model to battle with entry-level models from the Europeans and Japanese luxury makes.

The Aurora, Cadillac's 1990 concept car, didn't pass consumer marketing tests, sending Cadillac designers and engineers back to the drawing boards again. Such a model is unlikely for production until 1996 or later.

Mr John Grettnberger, Cadillac general manager, said the entry-level model would probably be the first to experiment with new construction concepts and lightweight materials.

That would allow the car to remain the same size as today's Cadillacs but meet the anticipated stricter fuel economy standards. He envisions that Cadillac will sell a number of different models and will sell a number of different models based on the new body platform.

By 1995, Cadillac wants sales of 300,000 units annually for 3 per cent of the US car market. It plans to double sales overseas within a couple of years.

In the next four months, General Motors will introduce five new large or luxury cars. The Cadillac Seville and Eldorado go on sale on September 1. They have been showered with praise by the automotive press as rivals to Toyota's Lexus and Nissan's Infiniti. GM will introduce a Oldsmobile 88, Buick LeSabre and Pontiac Bonneville in the large car category this autumn.

GM has an extremely aggressive product schedule through 1995 in the luxury market. The most dramatic changes in GM's product line in the 1990s will occur in its luxury models.

"We are dealing from unbelievable product strength," says Mr Battenberg. "We're more aggressive than anyone in the industry . . . I don't believe the market is as competitive as its going to be but I don't see anyone with the ability and capability to launch the number of new products we're going to launch".

In 1990, according to GM, the automaker sold 60.9 per cent of luxury cars in the US

If Mr Battenberg is correct, that will be good news for GM's battered bottom line. Analysts estimate the failure of GM's luxury cars of the mid-1980s cost the company $500m in gross profits annually.

Michelle Krebs,
Michigan

■SAAB: showing signs of optimism about long-term survival

Ambitious new fleet sails into view

MR David Herman, chief executive of Saab Automobile, insists that he can see light at the end of the tunnel. "The business plan now looks fantastic. It's not a hockey stick, it's a straight line upwards."

With a record loss last year of Skr4.64bn and a further loss in the first quarter of SKr824m (before allocations and taxes) it helps to be optimistic.

The recession in many of Saab's main markets, the US, Sweden, the UK and Finland may prolong the pain, but Saab is taking drastic measures to ensure its long-term survival.

The Saab car operations were deep in trouble when Mr Herman was appointed president and chief executive less than 18 months ago in the wake of the takeover by General Motors, the world's biggest car maker, of a 50 per cent stake and management control of the Swedish car producer.

Mr Herman, who joined GM as a lawyer in 1973, is one of the US automaker's most internationally-experienced executives. He was managing director from 1986 to 1988 of GM's Antwerp plant, one of the group's most successful and productive assembly facilities worldwide. As special assistant to the managing director of General Motors Espana he played an important role at the beginning of the 1980s in the development of GM's first Spanish car assembly operation.

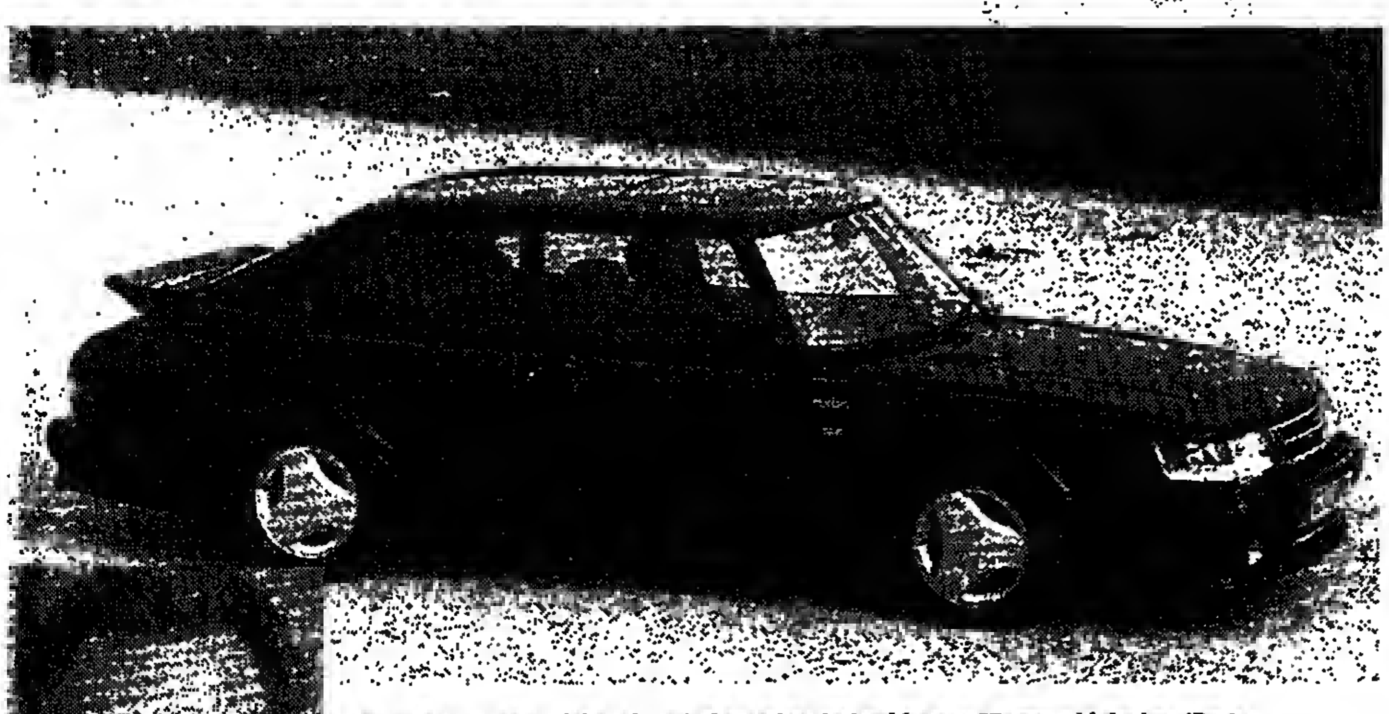
GM and Saab-Scania, Saab Automobile's two shareholders, will shortly take crucial decisions on a much-needed financial restructuring at the Swedish car maker.

Last year's losses wiped out around two-thirds of the company's original SKr6.9bn risk-bearing shareholders' equity, making an injection of new capital unavoidable. The strategic plan developed by Mr Herman over the last year provides the crucial foundation for the injection of new funds.

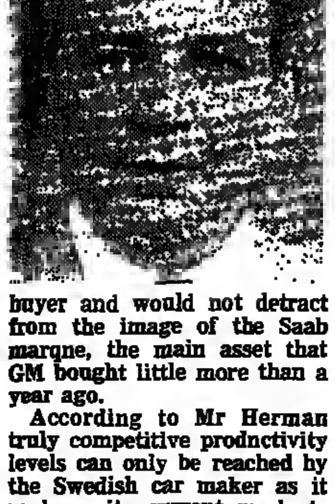
The financial review is due to be completed before the end of June, but Saab-Scania has already promised that "adequate measures" will be taken to support the aggressive capital expenditure programme planned for Saab, which includes a significant expansion of its model range during the first half of the 1990s.

With the backing of its two shareholders Saab is holding to its ambitious product plan calling for the introduction of three new model lines in the first half of the 1990s – replacements for the two current Saab 900 and 9000 series and the addition of a top-of-the-range luxury car.

Saab may then have a line-up to compete with the likes of the BMW 3, 5 and 7 series. It would still be hampered by having only a third of BMW's sales volumes. But it can compensate for this by drawing on GM resources, largely from Opel, GM's German subsidiary, and by using common components, where these are unseen by the car-



Saab 900 Carlsson (above) part of a series derived from a 27-year-old design: 'Parts of the car require arc welding. I don't think there is anyone else in the world still doing that,' says Mr David Herman (left) chief executive of Saab Automobile



buyer and would not detract from the image of the Saab marque, the main asset that GM bought little more than a year ago.

According to Mr Herman truly competitive productivity levels can only be reached by the Swedish car maker as it replaces its current products with modern designs, where the cars have been developed from the start for "ease of manufacture".

Previously strapped for finance as a small independent car maker Saab had to make a virtue of evolving its old models rather than replacing them. The present Saab 900 is derived from a 27-year-old design. "Parts of the car require arc welding. I don't think there is anyone else in the world still doing that," says Mr Herman.

The rejuvenation of the product programme will take time and GM has had to move quickly to attack the roots of the severe crisis facing Saab Automobile.

This year Mr Herman announced Saab Automobile's intention to close its Malmö assembly plant in southern Sweden, one of the newest final assembly facilities in Europe which was opened only 18 months ago, in order to ease the company's heavy burden of overcapacity.

The productivity that was being achieved by Saab at its three assembly plants at Trollhättan and Malmö in Sweden and at Uusikaupunki in Finland, had fallen to an unacceptable level.

Many of the company's inherent problems had been obscured in the mid-1980s by the windfall profits it earned in North America thanks to an inflated US dollar. They have since been mercilessly exposed by the weakness of the US dollar and by the impact of inflation, recession and high interest rates at home, as well as by fundamental weaknesses in the Swedish industrial structure. (It has not been alone with such problems. Volvo's car operations fell into loss last year and remained in loss in the first quarter of 1991).

The challenges facing Mr Herman are considerable, including:

- losses last year of SKr 4.64bn including extraordinary losses of SKr1.39bn, compared with a Saab car division loss of SKr2.13bn in 1989 and profits of SKr11m in 1988, SKr579m in 1987 and SKr941m in 1986,
- the need for a financial restructuring,
- a plunge in car production last year by 15.7 per cent to 87,356 from 103,591 in 1989 and a peak of 134,112 in 1987,
- a further 16 per cent drop in sales to customers in the first quarter this year to 20,000 from 24,700 a year ago, a fall in turnover in the first three months of 18 per cent to SKr3.4bn, and a worsening of the loss (after financial items) in the period to SKr1.011bn from SKr665m a year earlier. After extraordinary items the first quarter 1991 loss was cut to SKr824m through gains from the sale of buildings.

Saab sales have fallen steeply in the last couple of years to 93,231 in 1990 from a peak of 127,180 in 1986 – with a particularly sharp decline in the US. By contrast, in 1986/87 Saab could not build enough cars to keep up with demand and it was projecting sales rising to 150,000-180,000 by the mid-1990s.

It embarked on its investment at Malmö at what turned out calamitously to be the peak of the cycle as part of a strategy aimed at establishing a capacity for producing 180,000 cars a year.

More significantly, it embarked on the Malmö project, because it found itself crucially incapable of wringing the productivity out of the main Trollhättan plant needed to increase output.

"The productivity at Trollhättan was so poor at well over 100 hours per car, that you could not find enough people locally to build them," says Mr Herman.

Last year Saab produced 87,356 cars spread across three plants – Trollhättan, Malmö and Uusikaupunki. At best the Trollhättan plant produced 61,576 cars in 1986. Mr Herman maintains that it alone should be capable of producing 125,000-150,000 cars a year. "On the floorspace here the Japanese would do 250,000 if they wanted," he says.

In a speech earlier this year in Detroit he highlighted the particular problems of car making in Sweden including:

- very high rates of labour turnover – and therefore wasted investment in training,
- high absenteeism,
- obstructive management hierarchies and weak middle management,
- narrow wage differentials and policies for wage solidarity across sectors.

Saab Automobile says that it has been forced to train for 20 per cent natural wastage rates, the highest in the OECD. Less than a third of the hourly paid workers hired five years ago still work for the company.

At the same time "only 62.8 per cent of the total contracted hours available from hourly people technically on our rolls are worked," says Mr Herman.

By contrast total absence at GM's Antwerp plant, which is good by European standards, is less than 10 per cent.

The impact measured in hours per car is large.

According to Mr Herman at the end of 1989 Saab required "well in excess" of 100 hours to produce a car compared to the 40-45 hours required by a good European plant building a mix of premium cars and less than 30 hours required by most of the Japanese plants.

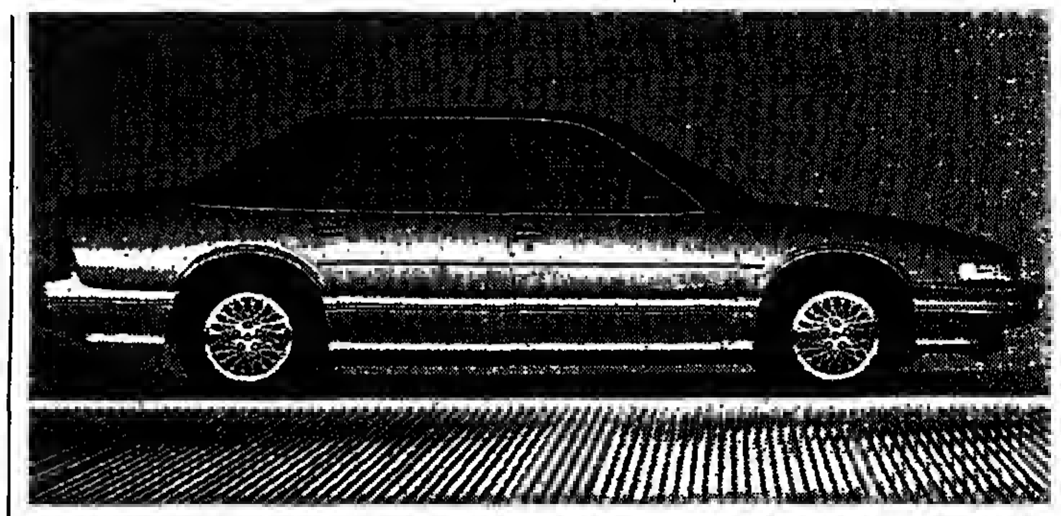
Apart from the Malmö closure a series of other measures aimed at improving productivity and cutting losses have been taken or are under way including:

- the shedding of labour with the Saab Automobile workforce worldwide to be cut by about 32 per cent in two years from 17,000 people at the beginning of 1990 – when GM took over management control – to a planned 11,500 at the end of 1991 (including 870 jobs eliminated through the closure of the Malmö plant),
- the sale or closure of four unprofitable in-house components operations and a move to out-sourcing,
- the opening of new foreign markets and the strengthening of the European dealer network,
- access to GM's global components and materials sourcing network, which is supposed to cut Saab's SKr6bn purchasing bill by 15 per cent or SKr1bn by 1993,
- GM is to buy transmissions – and possibly engines at a later date – from Saab, improving the Swedish company's capacity utilisation,
- GM is using Saab's Finnish plant to assemble Opel/Vauxhall Calibras, reducing Saab's overcapacity burden.

The transfer of the Malmö production to Trollhättan is supposed to be achieved without increasing the Trollhätan workforce.

Mr Herman maintains that the number of hours per car at Saab has already been reduced to about 85, and that it will be down to 60 by the end of 1991. This is an improvement of more than 45 per cent in productivity in two years. Much of tha early gain came from nothing more complicated than shedding surplus labour. However, more complex tasks lie ahead.

Kevin Done,
Motor Industry Correspondent



Claude Taylor (right) chairman of Air Canada, drives the smaller and more modest Oldsmobile Cutlass (above)

CANADA

Directors take the dollars and drive

THE CAR tastes of North American executives stretch from the Cadillac driven by Mr James Renier, chairman of Honeywell, the electronic controls group, to the smaller and more modest Oldsmobile Cutlass preferred by Mr Claude Taylor, Air Canada's chairman. What North American companies have in common, however, is a far less generous approach than many of their European counterparts to giving cars as a perk to senior managers.

A survey by Chicago-based Runzheimer International showed that the proportion of US companies supplying cars to top managers dipped from 80 per cent in 1985 to 61 per cent in 1989.

Runzheimer is still collating the results of a more recent survey, but preliminary findings suggest that the downward trend has continued, and that cars are gradually being replaced by other forms of remuneration.

The sagging popularity of company cars is partly due to tighter tax rules, soaring insurance costs and to efforts by employers to trim expenses during the recession. But North American executives appear less wedded than their European counterparts to the idea of a company car.

Mr Martin Harts, a compensation consultant with Peat Marwick Stevenson & Kellogg in Toronto, says the prevailing view among executives, especially in the US, is: "Give it to me in dollars, and I'll decide how to spend it."

According to a survey of 210 Canadian companies last year by Sobeco, a Toronto-based human resources consultancy, 60 per cent either buy or lease cars for their employees. Another 10 per cent chip in a monthly allowance for employee-owned cars, while 13 per cent reimburse on a per-mile basis.

While these figures may leave the impression that car schemes are pervasive, they not only hide the declining trend but also mask the fact that most North American companies provide vehicles only to their most senior managers. It is rare to find anyone below the vice-president level with a company car.

Even those executives lucky enough to be on a car scheme are usually encouraged to be modest in their choices.

"If the average executive wants a Mercedes, he ends up paying for it himself," says Mr Andrew Smith, client services manager at Runzheimer International's Canadian office.

The Sobeco survey found that the average value of cars provided to Canadian chief executives last year was C$32,500, and to other top managers C$25,000. Those amounts do not go very far. For example, the cheapest 1991 Audi model sells for C$36,500, and a Jaguar XJ-6 for a minimum of C$58,500. The Lincoln Town Car, a North American-built model popular among chief executives, costs C$41,300 (excluding optional accessories).

A vice-president at one large Canadian bank, for example, notes that he was allowed to spend about C$24,000 on his company car (including options such as a radio and rear windshield wipers). He decided on a Honda Acura, which sells for about C$32,000, and is thus left to pay the difference out of his own pocket.

The car is leased through PHH, the fleet management consultancy, which bills the employee directly for the difference between the ceiling set by the bank and tha actual lease payments. However, the bank pays all fuel and maintenance charges, and the employee can buy the vehicle after 36 months from the leasing company.

However, the bank's lease payments and operating outlays are all counted as taxable benefits.

The increasingly stringent tax treatment of company cars is the main reason for employers' reluctance in both the US and Canada to expand their car schemes.

The first blow against the executive car in the US was the Tax Reform Act of 1984, which limited depreciation on cars used less than 50 per cent for business to straight-line depreciation over five years. Adequate records are required to prove business use, and employers must charge for the personal use of the car or report the value as taxable income to the driver. Purchases of luxury cars have been discouraged by a 10 per cent tax on cars costing more than $30,000.

Personal use of a car in Canada is also taxable, and only the first C$24,000 of the cost of a vehicle is eligible for capital cost allowances. The maximum allowable lease cost is C$650 a month.

US companies still generally prefer their chief executives to be seen in a North American car. Mr Ronald Allen, of Delta Air Lines, for example, drives an Oldsmobile 98, one of a group of large – but relatively inexpensive – cars which include the Cadillac, Chrysler New Yorker and Ford Crown Victoria. The base price for the 1991 Oldsmobile 98 is $28,600.

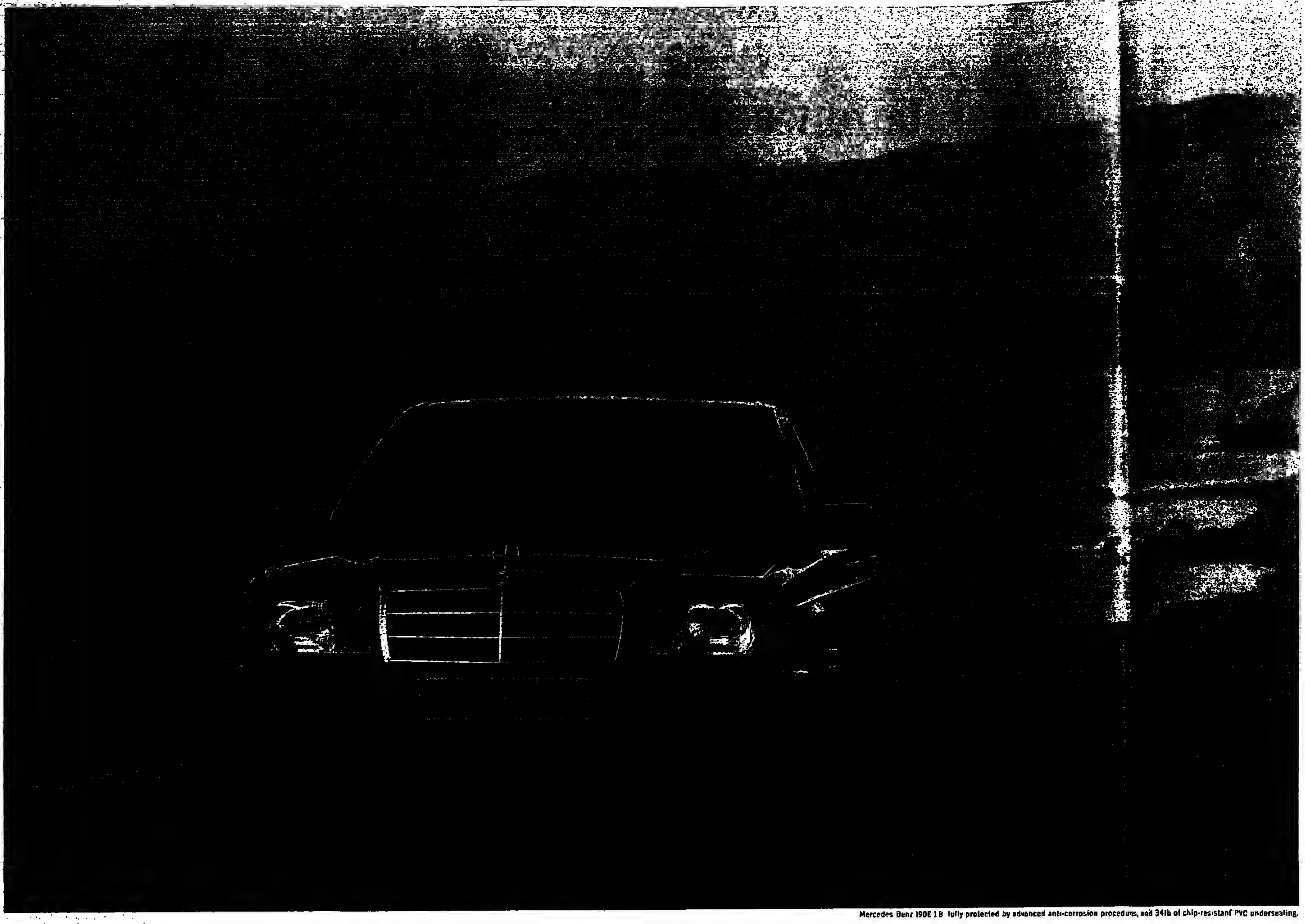
However, the stigma against foreign brands is lessening. The Runzheimer survey noted that while 86 per cent of cars in executive fleets were still North American makes in 1989, the market shares of both European and Japanese models had risen in the previous two years, to 9 per cent and 5 per cent respectively.

The popularity of Japanese cars, in particular, has almost certainly risen further since then. One reason is the launch of such luxury models as Toyota's Lexus (with a base price of $39,000), and Nissan's Infiniti (base price $40,000). With Japanese assembly plants mushrooming in the US and Canada, it has become more difficult to criticise the Toyota or Nissan-driving boss for helping to create jobs abroad at the expense of those at home.

Bernard only 6.5

price at £11,171.

مكبّر من الأصل



Mercedes-Benz 190E 1.8 fully protected by advanced anti-corrosion procedures, and 34lb of chip-resistant PVC undersealing.

You'll still be discovering its true values long after you've forgotten its price

"The realisation that here was a car of real, deep-down design integrity and build quality was a slow-dawning delight ... I knew then that if I ever owned a serious car it would be a Mercedes."

So wrote David Vivian, *Autocar & Motor*'s road test editor (26 December 1990), about his long-term test 190E 2.3-16. And in so doing, he pin-pointed the reason so many demanding drivers buy Mercedes-Benz cars time and time again (when it would be simple enough to buy what seems, superficially, to be a cheaper car).

Quality Means Value

No manufacturer is more deeply committed to value for money than Mercedes-Benz. For them, it is inseparable from the deep-seated build quality that Vivian writes about. (Fact: every eleventh Mercedes assembly worker is a quality controller. Fact: Mercedes body shells have between 4700 and 5600 welding points, an inordinate number, giving them a "hewn from granite" feel.)

Value for money takes on even sharper focus when you think about running costs, servicing standards and resale value. "Up to the 18,000 mile service, we spent just £95 on parts and £131 on labour," wrote Bob Murray, editor of *Autocar & Motor* (7 November 1990) about his long-term 300E-24. Murray was also appreciative of his local dealer service. Indeed, meticulous Mercedes-Benz servicing (including the Touring Guarantee which ensures four years of prompt, free, breakdown repairs and alternative transport and accommodation) is another key benefit of Mercedes-Benz ownership.

Unrivalled Resale Value

Resale value? Steve Cropley, editor of *Buying Cars* (August 1990), said: "In a year, low depreciation can save you the cost of your annual holiday. In five it can save you a house deposit." *Buying Cars* went on: "The Mercedes 190E is probably the lowest depreciating of all cars we've chosen."*

Few car-buying decisions are as gratifying – or as gilt-edged – as the decision to buy a Mercedes-Benz. Its price may be as low as £16,300 (for a 190E 1.8) – but that's scarcely a yardstick of its true values.

WORLD SPORTS CAR
1989 · CHAMPIONS · 1990

ENGINEERED LIKE NO OTHER CAR IN THE WORLD

*Ford Sierra XR4i, Peugeot 205 1.6 GTi, VW Golf Convertible, Citroen 2CV, Mercedes-Benz SL, Mitsubishi Shogun, Rolls-Royce Silver Shadow, Jaguar XJS V12, Porsche 944, Mercedes-Benz 190E.

■THE FUTURE: legislation around every corner

Researchers tread quietly on the tarmac

THE design and specification of executive cars of the future will be influenced ever more closely by legislation dealing with almost every aspect of vehicles, from safety to their impact on the environment in terms of noise and congestion as well as exhaust pollution.

Yet few senior executives in the industry see a tighter legislative framework as necessarily imposing a dull uniformity on the executive car of the mid to late 1990s, or boredom or disinterest on its driver.

Intensive research and development efforts are being directed by manufacturers into making their vehicles quieter, safer, more economical – and thus less polluting.

These efforts are giving rise to innovations which should make the long distance executive car driver's motoring less stressful, and possibly even more entertaining. They should allow him to stay more efficiently in touch with his office or customers during journeys likely to be lengthened by traffic congestion.

For congestion there appear to be few, if any, easy answers.

Lotus has been developing the 19th century concept of anti-noise

Road pricing, as a means of persuading commuters to switch from road to rail, may provide a partial solution for urban areas. But the bright hopes once held out for sophisticated, computerised traffic guidance schemes as a means of significantly speeding up traffic flow have been dulled by experience with roads such as the UK's M25 orbital motorway around London. A succession of widenings and other improvements have demonstrated that the main effect is for the number of journeys undertaken to rise to fill the convenience available.

Dr Heiko Barske, head of research at Volkswagen of Germany, suggests that this syndrome is likely to lead, at best, to route guidance systems providing a 10 per cent overall improvement in traffic flows in most areas.

Research continues into other ways of making more effective use of road space, not least by means of coovoying in which external electronic control systems would take over from the driver once a car entered the motorway system, allowing it to keep a minimal but safe distance apart from the car ahead, braking it automatically in the case of obstructions and so on.

Indeed, this has been a research area for Prometheus, the joint European research project being conducted by 14 European car makers and more than 50 scientific institutions. Prometheus, nearly five years old, has as its goal the provision of a low-conflict, environmentally positive, safe and economic road traffic system throughout Europe.

Yet, as with most other issues relating to the car and the environment, Prometheus' 300 scientists have established that the problems of such systems are not merely technological.

Product liability worries loom large in regard to the potentially catastrophic consequences of a system failure. The worry is such that BMW, for one, has said that it will not contemplate allowing anyone or anything but the driver to be in ultimate control.

That has not prevented BMW from advancing research in a number of related areas, including what it describes as heading control.

The system uses a video camera to determine the exact course of the road, feeding the information into an on-board computer. The computer then compares road speed, steering angle, steering forces and other dynamic elements of the car's behaviour with the commands being given to the car by the driver in terms of steering wheel movements, accelerator and brakes.

The system will then maintain the vehicle on the desired course indicated by the driver, but without the driver having to make minor steering corrections. Ultimately, if the driver gets things wrong by more than a certain margin – driving too fast for the prevailing conditions for example – the control system will either issue a warning or temporarily take control of the car. Even so, a driver determinedly bent on doing himself harm can override the control efforts of the system.

Exhaust pollution remains one of the industry's biggest concerns

BMW is involved with vision enhancement research, using infra-red cameras for seeing through mist and fog. However, one of the many benefits of the co-operative research within Prometheus is the knowledge that a really effective system to see through fog – thus reducing the prospect of so-called motorway madness smashes – must use ultra-violet as well as infra-red in order to take account of organic as well as metallic obstructions in the vehicle's path.

Noise reduction inside the vehicle has assumed increasing importance, both as a means of lowering stress and allowing full use of more sophisticated audio equipment.

Lotus, the consultancy engineering and sports car subsidiary of General Motors, has been devoting a great deal of research to noise suppression both inside and outside the car; the latter to find out the best way of complying with drive-by noise tests planned for the European Community well before the end of the decade.

Lotus has been developing the 19th century concept of anti-noise – generating, usually through the car's in-car entertainment system, sound waves of an opposed frequency to those emitted into the passenger compartment by engine and transmission and tyre rumble. The frequencies neutralise each other, greatly lowering the level of noise perceived by the driver and passengers.

The first commercially-produced car to feature the system will, according to Lotus, be launched in a few months time, although Mr Malcolm McDonald, Lotus' associate director responsible for noise, vibration and harshness research (NVH) refuses to say what it will be.

However, the research has progressed considerably since Lotus unveiled its first, not overly impressive, anti-noise system two years ago – with some remarkable results. In a recent test display at the company's Hethel, Norfolk, proving ground, a standard Citroën AX small hatchback was made to sound to the driver exactly like a Porsche 911, and later a Corvette V8, at the throw of a switch. To the world outside, it still sounded like a little Citroën.

Lotus sees the system as much more than a bit of fun. As car design has converged, so there has been a trend towards anonymity. Lotus believes that the system is highly marketable to the manufacturers of the world, in offering them the ability to create their own engine family character at minimal expense.

Exhaust pollution remains one of the industry's biggest concerns, with it accepted that all new cars produced throughout western Europe will be fitted with catalysts from the end of next year.

During the past year headlines have been made by the draconian emissions legislation planned for California, where 10 per cent of all new car sales will have to be zero emission – in other words, electric – vehicles by the early 21st century. Such radical approaches for Europe's car population are regarded as highly unlikely, particularly in the executive sector.

BMW, Mercedes, Toyota, General Motors and other manufacturers all see the internal combustion engine as providing the overwhelming form of motive power for cars until far into the 21st century. In many cases it could advantageously be allied to continuously variable transmissions allowing the engine to run continuously in its most efficient and economical operating range.

Such gearless transmissions are in production for smaller vehicles of up to 1.6 litres. However, both British Technology Group, through its Torotrak subsidiary and Lotus are well advanced with such transmissions for larger cars.

Torotrak is operating Rover 800 executive car prototypes with its transmission, for which Torotrak is claiming an 11.5 per cent overall reduction in fuel consumption, and lower exhaust emissions, compared with similar manual transmission cars.

One missed opportunity for significantly reducing urban exhaust pollution is soon to be revived, and its comes from the Volkswagen/Audi group.

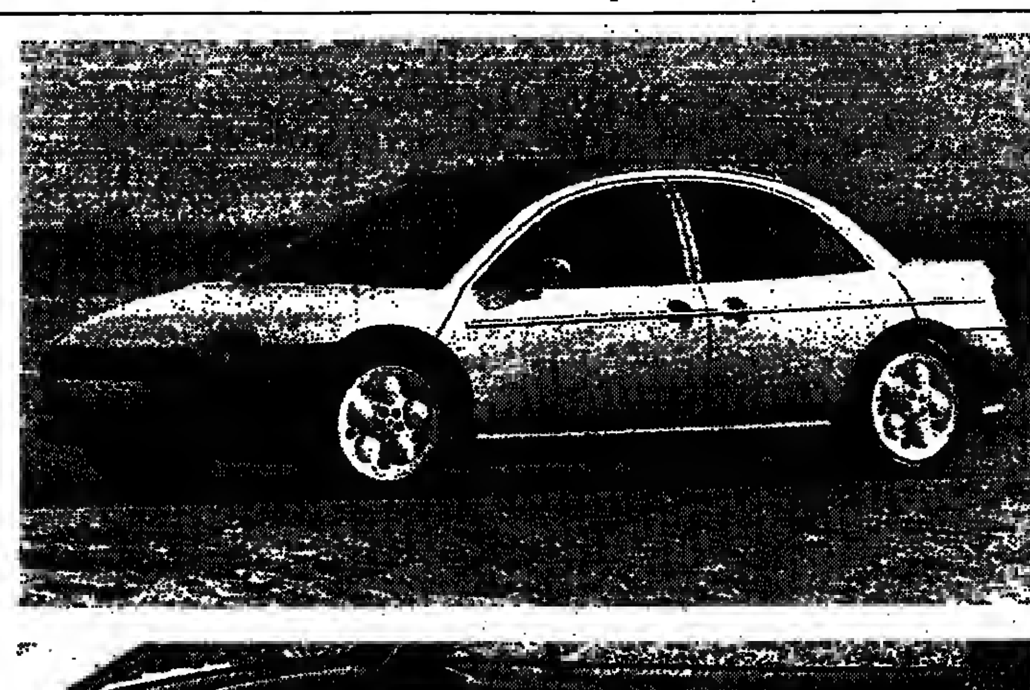
Five years ago there was an attempt to launch the Eco-Golf, resembling VW's hatchback in every respect except that it had no clutch for its five-speed gearbox. The clutch was operated electronically every time the driver changed gear and, most importantly, the engine cut itself out completely whenever the car was stopped at traffic lights or in traffic jams.

The engine restarted automatically as soon as the gear was re-engaged. Since most urban exhaust pollution is generated by vehicles at idle, a significant population of eco cars could cut pollution at a stroke.

However, buyers never quite trusted the system, and the cars were withdrawn. VW considers that the time is ripe to try again, and the system will be relaunched next year, although not necessarily in the Golf.

With hindsight, launching the system in economy cars first was probably a mistake, acknowledges VW's Dr Barske. "If it had been launched first in Audi, Mercedes or other upmarket, executive cars, it would probably have been seen as desirable high-technology which buyers of less expensive cars would have been keen to have also."

John Griffiths



The Dodge Neon concept car endeavours to provide answers to environmental issues. Most of the components are made of, or can be, recycled into reusable components. The wheels, for example, are made from recycled aluminium

■MOBILE COMMUNICATIONS: scourge or indispensable tool

Budget adds to cellular bill

"One of the greatest scourges of modern life" was how Mr Norman Lamont, the chancellor of the excbequer, described the car telepbone in his Budget speech in Marcb. Tben be announced that the use of company car pbones for persooal calls would become subject to taxation from July this year.

Those wbo object to tbe new tax – and tbey range from backbench Tory members of Parliament to employees of tbe local one man-and-a-dog company – argue that for most business people the car telephone has become an indispensable tool.

They point out that the cost of collecting the tax would probably eat away at most of the £10m, or so, that it is intended to collect.

From the network operators point of view the oew tax is likely to provide more gloom in a particularly gloomy year, although both Cellnet, in which British Telecom has a majority stake, and Vodafone, the Racal subsidiary, say the chancellor's remarks have had little real effect oo market growth.

Putting a brave face on it, both Vodafooe and Cellnet point out that the outcry by their satisfied business users has, at least, dispelled tbe myth that that the 1.2m carphones in use in the UK are just yuppy toys. Cellnet, for example, says that over half the customers on its network work for small businesses with less than 100 employees, and many of those individuals are actually self-employed – plumbers, joiners and so on.

Mr Chris Gent, managing director of Vodafone, describes the furore following the chancellor's speech as a "storm in a teacup", while showing considersble irritation that ths explanatory document which was issued after the Budget announcement contained factual errors on the revenues and usage of the networks.

The new tax is likely to provide more gloom in a particularly gloomy year, although Cellnet and Vodafone say the chancellor's remarks have had little real effect on market growth

"I would have preferred it if the Treasury had done its homework first", says Mr Gent.

But st the sharp eod of the market – the sellers and the installers of cellular equipment – the chancellor's remarks are greeted with far more anger than irritation.

"If you go out and ask anyone in tbe street what this tax means they say it means you are taxed £200 if you've got a cellular phone," complains Mr James Tanner, managing director for Tancroft Communications, of London, which sells and installs carphone.

Mr Tanner is quick to point out that the law will mean that only users of company-owned car phones will be taxed if they use the phone for personal calls for which they do not reimburse their bosses – and only then by a maximum of £80 if they pay tax in the higher tax bracket.

Self-employed business people will not be liable for the tax at all.

More important for the two UK operators has been the recession, which has lopped 25 per cent off the number of new customers signing up for cellular services, according to Mr Gent.

It has also resulted in a greater "churn" of customars – those who give up their phones when business gets tough or their company goes bankrupt.

All in all, says Mr Gent, it has meant that the number of additional customers on the Vodafone network each month is half what it was before the recession. And to compound the problem tbe amount of time each customer [illegible] the phone has also [illegible] by about 9 per cent.

The result is that the network operators have spare capacity on their networks at a time when they are having to invest to install the infrastructure for the next generation of cellular radio, which will be digital.

The GSM system, as it is frequently called, (standing for Groupe Spéciale Mobile), will be a pan-European system, eventually enabling a driver with a GSM phone to use it in London, Frankfurt or Paris.

Vodafone plans to have a GSM service in the south-east – within the M25 and as far north, possibly, as Luton – by Novemher or December this year. By the end of 1992, says Mr Gent, 90 per cent of the population of the UK will be covered by the service. Cellnet, on the other hand, is planning a trial GSM network this year, but will not launch a commercial GSM service until mid 1992.

Vodafone's reason for launching a service so quickly is to establish the digital service before the next generation of services – personal communications networks (PCNs) – steal the publicity in 1993, the date planned for their launch.

Mr Gent acknowledges, however, that take up of the service could be slow.

The price of equipment to work on the network could prove a deterrent, with carphones likely to cost up to £1,000 each, compared to giveaway prices of today's cellular phones. And there will not be the range of equipment, with only a few manufacturers having phones on the market when the service is launched. It could be some time before the bells and whistles of the latest analogue phones – such as voice recognition technology – is built into GSM phones.

Because of the spare capacity in the two established phone networks at the moment – Vodafone reports it has 25 per cent spare capacity at the moment, for example – the quality of reception on them is as good as it has ever been. Cellnet reports that in central London, the most hostile environment for cellular radio coverage, 92 per cent of calls get through first time and maintain a good quality line for two minutes – longer than the average call.

Although digital, the new GSM networks are likely to find favour at first with travellers who want to go overseas and, believes Mr Gent, with some domestic snbscribers. Because the networks are digital, subscribers who want to send computer data or facsimile messages over the radio network may be early customers.

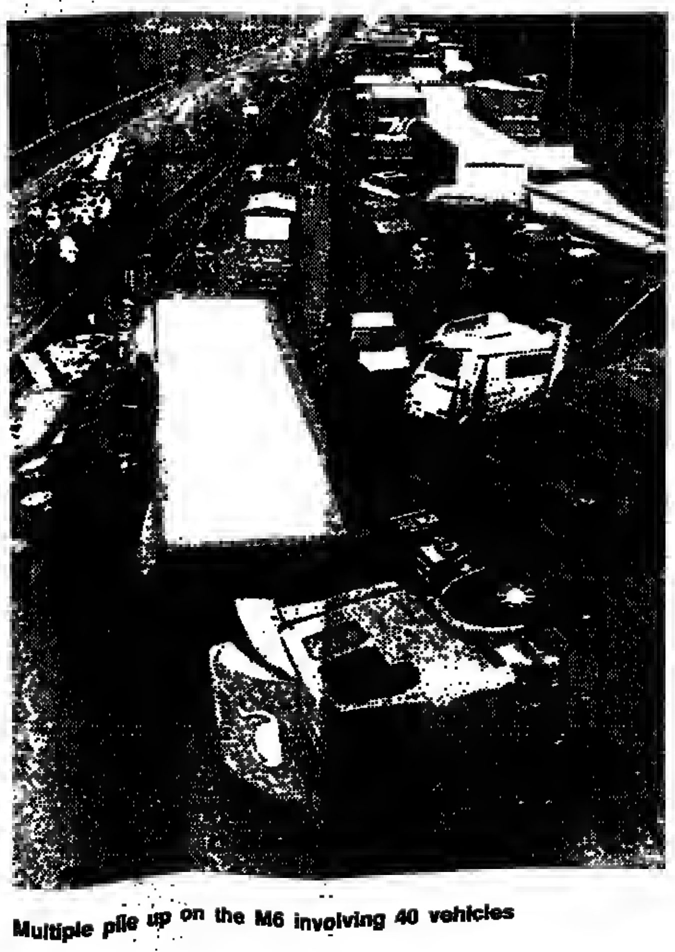
However, in spite of the availability of battery-powered fax machines at the moment, that simply plug into a socket in the car phone for sending and receiving textual messages on the move, the market for mobile offices is still proving slow to establish itself.

Della Bradshaw

James Tanner, left, msnaging director of Tancroft Communications, with a battery operated tax machine sending a document via a Panasonic transportable cellular telephone. Booking hotel rooms by Cellnet car phone, above

■DEFENSIVE DRIVING TECHNIQUES: lessening the impact of accidents

Advanced training that cuts errors



Multiple pile up on the M6 involving 40 vehicles

WITH its renewed attack on company cars the British government's Bndget in March has concentrated corporate minds wonderfully in the UK on the costs of providing cars to employees, from the chief executive to the sales representative.

Hordes of accountants are analysing minutely the impact of companies paying national insurance contrihntions for the first time on the provision of company cars, and financial controllers are seeking to determina whather the chief executive with his perk Jaguar would actually be better off huying the car himself because of the latest jump in the scale charges for taxing the company car benefit.

Such efforts are understandable, but in assessing the costs and benefits of the company car, less ohvions factors deserve considaration, not least the level of skills of the drivers.

How often do corporations examine the driving skills of the individuals, to whom they are handing over pieces of equipment costing anything from £10,000 to £40,000, and which may be crucial to the smooth running of their businesses?

Not nearly often enough, argues Mr Kanny Roberts, director of Advanced Tuition Car, and one of the pioneering advocates of defensive driving techniques.

From his base at North Weald Aerodrome in Essex – the tarmac provides an excellent skid pan – Mr Roberts is seeking to persuade companies to assess more realistically the true cost of accidents that their company car drivers are producing.

Most company car drivers will have done no training since passing their driving test in their late teens

He maintains that 95 per cent of accidents are caused by driver error, not mechanical failure. While companies may spend hundreds of pounds sending employees on computer courses, it is irresponsihle to expect staff to drive up to 35,000 miles a year without any special training whatsoever.

Most company car drivers will have done no training since passing their driving test in their late teens. According to Mr Roberts many car drivers are under pressure in their jobs, which means that their working environment makes them especially vulnerable to accidents.

About 78 per cent of drivers in accidents are over the age of 26. He maintains that companies are experiencing that 65-80 per cent of their cars are involved in insurance claims in the course of a year and that the average cost of an accident is about £700.

The costs mount rapidly when other costs are inclnded such as car hire while the Ford Sierra or Vauxhall Cavalier is off the road, excess insurance payments and higher insurance premiums, in the extra administrative and paper work for the company car manager dealing with the accident, in paying the employee while he is off recovering, in the loss of bnsiness hecansa of lost appointments with customers, in lowar residual values for the car. The list is apparently endless.

"Ten years ago car service managers and financial controllers may have said this is normal, we have to live with this," says Mr Roberts, "but in fact their is a need for driver training."

Ha maintains that companies whose drivers have been trained in defensive driving techniqnes have reported cuts of 35 to 40 per cent in their accident costs.

A cut in such costs of only 10 per cent can pay for the driver training. Benefits coma in other ways too.

"A car doing 30,000 miles may use £2,000 worth of fuel. There is the wear and tear and running costs. If we can make someone a safer and more conscientious driver we can save three to four miles per gallon, by using the throttle better and the gearbox more efficiently."

Courses may cost from £140 to £235 a day depending on the course content, the number of drivers being trained, the ratio of instructors to drivers and the location of the course. Mr Roberts stresses the need for flexibility in tuition and the importance of tailoring the course to different clients' requirements.

He points to the barriers, that must be overcome in order to win over a sceptical clientele.

"Company car drivers often do not value their cars. We need their co-operation, because we want them to keep on taking the medicine, when they go away."

Kevin Done

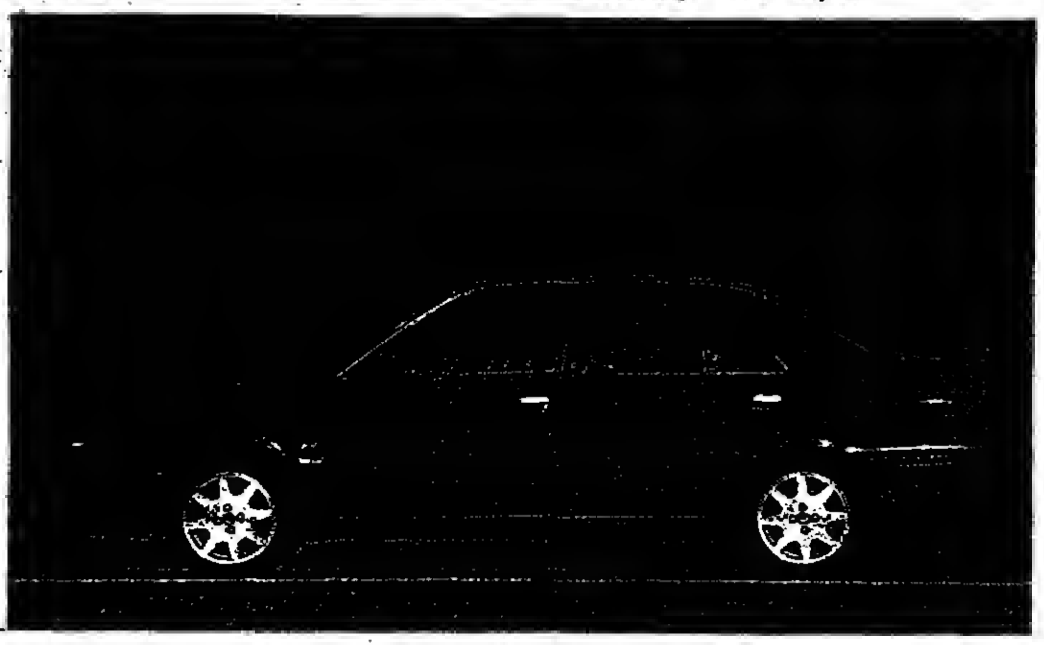
Wreckaga of a car being towed away after an accident on the M4

Jaguar XJ6 (left) is still rated highly especially for its lavish interior.

Mazda 626 (right) the GTI features four-wheel drive for improved handling and safer winter driving.

Lancia Dedra (below left) is seen as part of Fiat's bid for a share of the compact executive car class.

The Mercedes-Benz S Class (below right) has raised the stakes with its V12 engine providing 408 horsepower at *a price that is expected to be* over £80,000



TEST DRIVES

A taxing time for those over two-litre mark

THE long-term implications of the Budget for the company car are still being agonised over by the trade. But executive user-choosers know that their best proposition is a car in the second tax band having a scale rate of £2,680.

To qualify it must cost less than £19,250 and have an engine of under 2-litres cylinder capacity. After that, having a car with a larger engine and higher purchase price becomes costly for the tax payer.

Audi's new 100 is a good example of how manufacturers and importers have tailored their product to meet the new tax rules. Although two of the new 100s – the 2.3 litre, 5-cylinder and 2-litre, 4-cylinder cost less than £19,250, only the 4-cylinder model slips into the middle (that is, the less than £19,250 and under 2-litre) tax band.

Jaguar comes very close to matching the Lexus for the quiet comfort of its ride

It is a pleasant car, quite large, solidly built, adequately powerful and with better handling balance than its predecessor. The seats are on the firm side, in the German manner, but the interior and boot are very roomy. Low levels of mechanical, wind and road-induced tyre noise make it quiet on the motorway.

Longer established but no less desirable cars in this class include the Alfa Romeo 164 Twin Spark, Lancia Thema 2.0i; all Fiat Cromas, including a 2000 Turbo which is closely related to the Thema turbo but priced one band lower, and the Saab 9000i.

They are built on the same platform and performance differences are subtle. The Alfa Romeo is perhaps the sportiest but all should please an enthusiastic driver as much as they will satisfy the user who demands only that a car be spacious, safe handling and relaxing to drive.

BMW's 518i and 520i with manual transmission may lack the kick-in-the-back acceleration of the larger engined 5-Series cars but go uncommonly well. The Citroën XM and Peugeot 605 share the same 2-litre, 4-cylinder engine and many other components but manage to feel totally different in character. The XM is individual and unusual, the 605 refined but conventional almost to the point of blandness.

Ford's veteran 2-litre Granada rides notably well and, like the Peugeot 605 and Vauxhall Carlton, can be had with automatic transmission and still stay within the £19,250 barrier. The Rover 800s with 4-cylinder, 16-valve engines have matured well and combine contemporary performance standards with interiors like traditional country solicitor's Rovers had in days gone by.

VW's 2-litre Passat is roomy within, compact without and of rock-like build quality; the Volvo 940 GL and SE make a virtue of conservatism but are surprisingly good to drive; and the Renault 25 appeals to users who remain unconvinced of the virtues of saddle-hard seating.

Recent newcomer to the compact executive class of car offering all the comfort, refinement and performance of the larger ones without their bulk is the BMW 3-Series. The 1.8 litre 4-cylinder and 2-litre, 6-cylinder 318i and 320i saloons look and feel more like scaled-down 5-Series cars than straightforward successors to the former 3-Series.

Fiat and Lancia have made a bid for a share of this market sector with the Tempra and Dedra. Both have a number of common components but feel as well as look like different marques.

Although the new BMW 3-Series and its most obvious rival, the ageless and classic Mercedes 190, have rear-wheel drive, the great majority of compact executive cars are now front wheel driven.

As power-assisted steering is standard, the space-saving benefits of putting engine and transmission into a single unit are realised without making them difficult to park or heavy to manoeuvre at low speeds.

Now worthy of comparison with the best in class are Rover Group's 200 and 400 series saloons and hatchbacks. Nearly all are powered by Rover's own outstanding K-series engine with four valves per cylinder. They go and ride extremely well and have a hard to describe (but easy to discern) finesse, wearing their wood veneer trim as unselfconsciously as do their larger brethren.

In the compact executive class, users can opt for the safety benefits of permanent four-wheel drive without going through the £19,250 barrier though it will mean foregoing an automatic transmission option. All-wheel driven models include the Citroën BX, Mazda 626 GTi, Ford Sierra, Peugeot 405 and Vauxhall Cavalier. Quite apart from its obvious advantages in wintry weather, all-wheel drive eliminates the risk of wheelspin during hard acceleration and improves handling balance on wet roads.

Users able to contemplate cars in the £19,251-£29,000 and over-£29,000 price brackets in spite of their tax penalties are *better catered for than ever.*

The 3.6-litre Audi V8 at nearly £43,000 is the first luxury saloon to combine the quattro system of full time all-wheel drive with automatic transmission. The interior would not be out of place in a Jaguar and few executive-style cars allow so great a performance potential to be exploited so easily and safety.

In sheer performance terms, the *twin-turbocharged* Vauxhall Lotus Carlton has few if any rivals. But its very heavy clutch, ultra-high gearing and lack of an automatic transmission option would make it a strange choice for a business motorist. After all, they must reckon on spending a fair proportion of driving time in dense city-centre traffic or inching along in motorway tailbacks. It is hard to see how anyone could enjoy, or even tolerate, a Lotus Carlton in these conditions.

Ford, more sensibly, put its Cosworth-developed, 2.9-litre 24-valve V6 engine in a fairly normal Scorpio with automatic transmission as standard. It is a fast and agreeable car, marred only by two things – a transmission over-eager to downshift and tyres so wide they make it fidgety on motorways and noisily uncomfortable on rough minor roads.

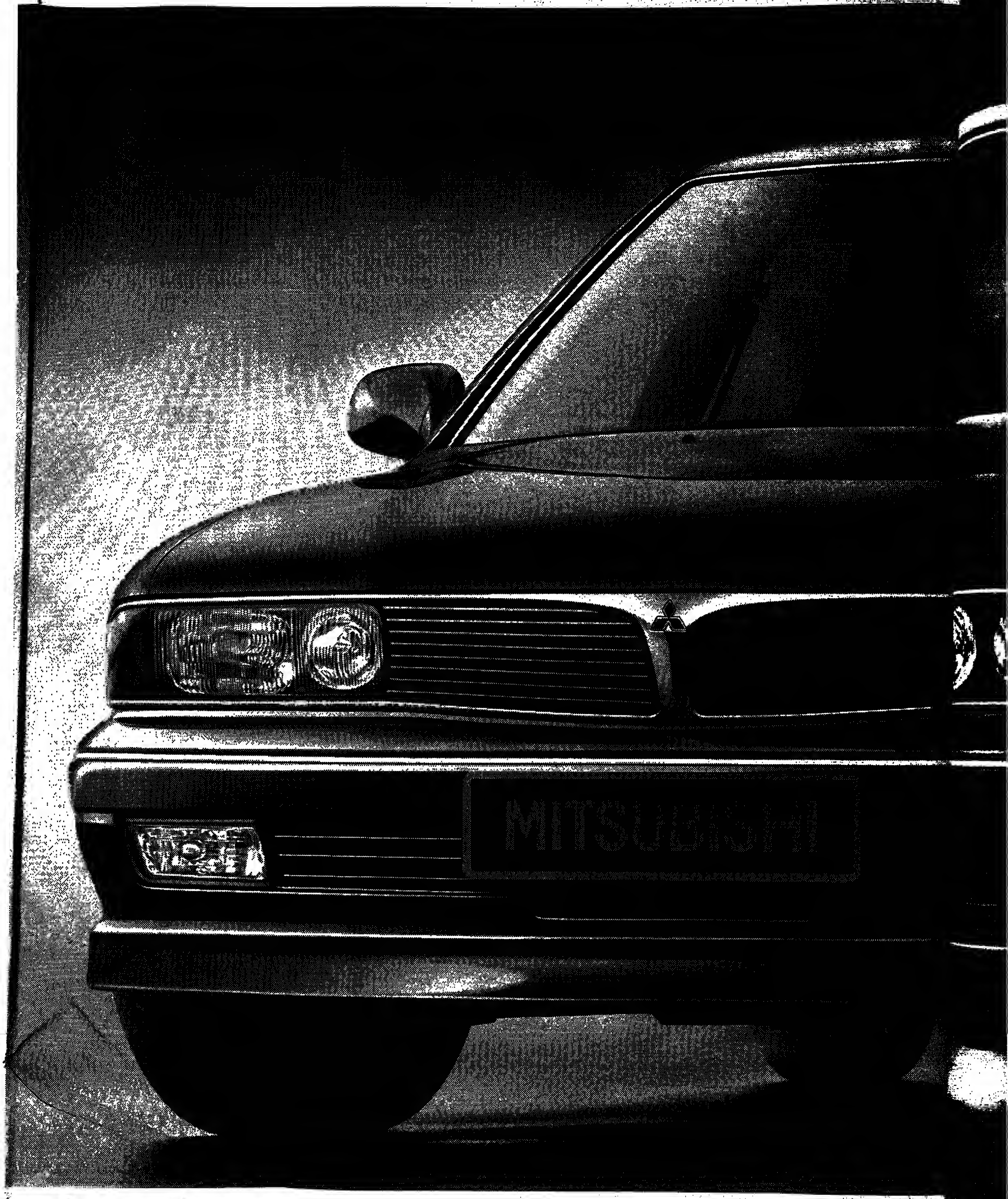
Having shown everyone else the way in family cars, sports cars and recreational on-off road four-wheel drive vehicles, the Japanese makers have turned to the luxury executive sector.

The Toyota-built Lexus, with a 4-litre, 32-valve V8 engine, is arguably the quietest car in the world, regardless of price. Whether cruising on the autobahn at 120 mph (193 kmh) or briskly climbing a mountain pass, the Lexus is sepulchrally silent. Its styling gives it a distinct resemblance to the former Mercedes S-Class and BMW's 7-Series, which is undoubtedly no accident, but *for urbanity, it has no peer.*

Mitsubishi's Sigma 3-litre makes wide use of electronics to enhance traction (and therefore safety) when driven on slippery roads. A microprocessor modulates engine power so it cannot break tyre grip during acceleration and cornering. Sigma has rear-wheel steering that makes lane-changing at speed uncannily neat and tidy.

Jaguar still comes very close to matching the Toyota Lexus for the quiet comfort of its ride but Mercedes-Benz, with its new S-Class, has raised the stakes – and the prices. Its V12 engined, 408 horsepower 600SEL will, it is reputed, cost over £80,000 when it arrives in Britain next November. For the moment, there can be little doubt that this multinational corporation chief executive's carriage is the best saloon car in the world.

Stuart Marshall



Thinking Ahead of its Class

Drive the new Sigma—and get ready for a sudden revelation. You'll be ble to tell right away this is more than just another executive saloon.

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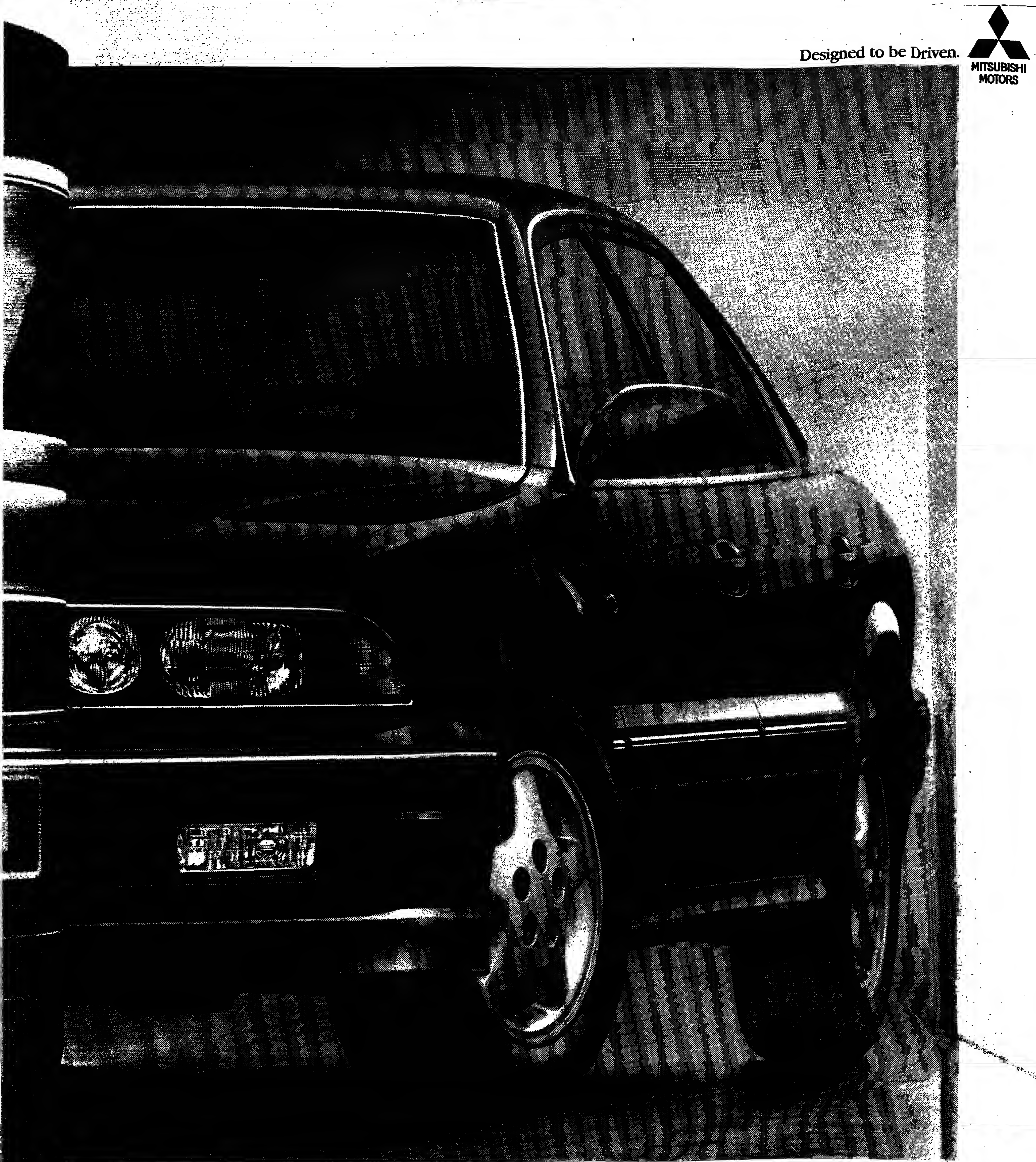

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intelligent traction control system—all developed to simultaneously enhance safe handling and impressive performance.

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MITSUBISHI
SIGMA

■SPECIALISTS: recession brings the hungry takeover wolves to the door

Few crumbs of comfort from US sales

IT is during years of falling markets like this that those who own or operate the small specialist car companies on the fringes of the industry feel twinges of mortality.

Past downturns in this most notoriously cyclical of industries have traditionally produced their crop of casualties, either in the form of closure for those companies with no particular pedigree, or loss of independence for those with well-respected names.

Such downturns expose situations that are present, but hidden during the good times.

It increases the difficulties that specialist companies have in standing up against the big league of manufacturers who can outspend them on research and development and which are showing every sign of wanting to take over the small market niches which the specialists traditionally have had to themselves.

The proudest names have not been exempt:

Aston Martin is 75 per cent owned by Ford. Jaguar is wholly owned by Ford. Lotus, for all its innovatory engineering, was unable to generate enough cash to avoid crisis and for the past five years has been owned (very much at arm's length) by General Motors.

Overseas, even Saab – a large niche player with peak production of about 100,000 units a year – has decided that life with GM is preferable

It embodies the spirit of the business, says Mr Wheeler, 'I literally designed it on the back of a fag packet'

to running up further large losses. And one of the proudest names of all, Ferrari, is part of Fiat.

Inevitably the sharp decline in luxury car sales in the world's single most valuable market, the US, and other important countries has prompted speculation about the two surviving most famous names still not under the control of a large vehicle maker – Rolls-Royce Motor Cars of the UK and Stuttgart-based sports car maker Porsche.

In unit sales terms, the US market is turning into an unmitigated disaster for Porsche. The company which in the late 1980s was selling more than 30,000 cars a year in the US – more than half its output – saw those sales plummet to just under 10,000 last year. The first four months of this year were worse yet: the 1,553 sales achieved were less than half the equivalent 1990 level. At this rate, Porsche will do well to sell 5,000 cars in the US this year.

Financially, Porsche is a long way from crisis. In March it disclosed profits for the half-year ended January 1991 which were down by 13 per cent – but still DM65m. It expects a slight drop in revenue but a satisfactory year as a whole.

This is in spite of depressed sales in the UK, where recession and intensifying competition have cut demand by nearly one half; another big blow to Porsche because the UK is normally its second-largest export market. Its UK sales for the year's first five months stand at 851, compared with 1,577 in the same period of last year, and for the first time there have been sales incentives such as cheap finance. About 30 people have been made redundant at Porsche's UK headquarters.

Doubtless things would have looked a lot worse had it not been the newly-expanded German domestic market, where sales have jumped by 25 per cent, reducing the export share of Porsche's sales to 64 per cent from 71 per cent.

Porsche has been compensating for its dwindling unit sales by moving further upmarket. Its basic 924 model is long gone, and its 911 range has been almost completely re-engineered in Carrera 2 and Carrera 4 (for four-wheel-drive) forms.

In the coming months it will unveil the 968, a sufficiently large overhaul of the mainstream 944 model for Porsche to give it a new model designation.

Whether such actions will prove enough in the face of a flood of new products from mainly Japanese manufacturers – but also Mercedes' new SL and convertible range – only time will tell.

Porsche, like some other European producers, leans heavily on the long-established prestige of its name and perceived engineering qualities for its success, and premium prices, and points out that this aura still largely eludes Japanese rivals.

But for how long?

Will Porsche retain its mystique and prestige only as part and parcel of a retreat upmarket into far smaller production volumes? Will, in the end, this manufacturer which in the late 1980s was producing more than 50,000 cars a year, move closer to being a Ferrari, whose annual output totals less than 4,000?

Porsche can take little comfort from developments in the US. The 160mph, mid-engined, aluminium-bodied and otherwise high-tech Acura (Honda) NSX has been on sale in the US only since late last year. In the first four months it has sold 767 units, more than half as many as Porsche's total sales, even though the NSX is a single model and priced at more than $60,000, nearly $20,000 more than the entry-level 944 Porsche.

Mitsubishi's 150mph twin-turbo 3000GT, perceived by many as a Porsche rival, if not by Porsche, sold over 4,000 units in the first four months and 10,000 if the Dodge-badged version, the Stealth, is included. The fastest, most expensive versions of both cars undercut the cheapest Porsche by more than $10,000.

Buyers of such cars tend to be both sophisticated, and critical, leaving no room for complacency among the Japanese manufacturers. Thus Toyota's ageing Supra coupe is losing ground rapidly, and Nissan's much newer 300ZX has had a relatively lukewarm reception.

The point is, Nissan, Toyota et al have vast resources with which to amend the improve the situation. Porsche, in comparison, has not.

Nor, indeed, has Rolls-Royce Motor Cars.

The Crewe-based luxury car maker with perhaps the world's most envied reputation is not an independent in the strict sense of the term, since it forms the largest part of Vickers, the UK defence and industrial group which, as of the past year also includes Cosworth, the high-performance engine specialist.

However, Vickers itself is small by volume car company standards, with a turnover of £778m last year. It is thus not completely immune to takeover itself, although its defence activities provide some protection, as the temporary holding of 20 per cent of its shares by New Zealand entrepreneur Sir Ron Brierley.

Rolls-Royce is having a very lean time. So far this year, sales of Rolls-Royce and Bentley cars are down by about 50 per cent on the 3,333 cars sold worldwide last year. In the UK, the company has sold 296 cars in the first five months of the year, compared with 588 in the same period of 1990.

Mr Peter Ward, chief executive, professes to have no qualms about Rolls's ability to survive as an independent. In part this is because of the unique niche Royce has held for so long at the very top end of the market, and which no manufacturer has ever seriously challenged.

That has not meant standing still – reflected in both steady updating of the cars to incorporate proven new technology and a radical modernisation of production methods at the once-chaotic Crewe facilities.

This greater manufacturing efficiency played a leading role in Rolls's ability to contribute just under one half of Vickers' £96.5m profits last year.

It has not been achieved without cost, in the form of deep job cuts. Last month the company announced the closure of all except body-making operations at Mulliner Park Ward, its proud old coachbuilding subsidiary in north London, with the loss of 500 jobs. That brought the total jobs lost to 1,200 since the start of this year, leaving 100 at Mulliner and 3,400 at Crewe.

Much tighter control of the business has left Rolls-Royce with the resources to achieve that almost unheard-of feat in recent years – the springing of a total surprise at a motor show. At Geneva this spring, the company unveiled a completely new coupe, the Bentley Continental R, the first Bentley model to have a separate bodyshell from the Rolls for more than 30 years. That Rolls-Royce was preparing such a car was known, but it had not been expected before 1992 at earliest.

It is a measure of the pricing flexibility available to the company that, even at "about £160,000", the first year's planned production of 280 cars is said to be accounted for, even though actual deliveries will not start until next year.

Also bucking the falling sales trend is Group Lotus. The Norfolk-based sports car maker and consultancy engineering group, virtually doubled output last year to 2,142 and on current trends will produce more than 3,000 this year. The reason is simple: the onset of full production of the Elan, Lotus' first small sports car since the 1970s.

A great deal of cynicism among the motoring media preceded the Elan's launch, linked to the fact that Lotus was opting for front wheel drive and a Japanese (Isuzu) engine – both anathema to old-fashioned 'purists'.

Only belatedly has it been realised that, with its innovatory front suspension raft, Lotus has found a way round the most well-known problem of high-powered front wheel drive cars. This is the steering wheel wriggling hard in the driver's hands as the front wheels struggle to cope with both transmitting drive and steering. It is entirely absent from the Lotus, and the system is expected to appear in other manufacturers' front wheel drive cars in the future.

Further out on the fringes of the specialist car market lie the really small companies which, if buying decisions were to be based purely on unemotional logic, probably would not exist.

Among the foremost is Morgan, with its open four-seaters which have changed little in appearance for 40 years and which are virtually hand-made at Malvern in volumes of less than 10 a week. Morgan is famous almost as much for blowing a televisual raspberry at former ICI chairman Sir John Harvey-Jones, who on a TV company doctor visit prescribed both higher prices and higher production.

The company has never succumbed to the temptation to expand, and says that to raise prices significantly would represent a betrayal of its customers.

As a result, it might not make vast sums of money – investing in a completely new model would be a hardship and in any case is not what Morgan is about. But even in the deepest recession it can claim that it's order book has remained measured in years, not months.

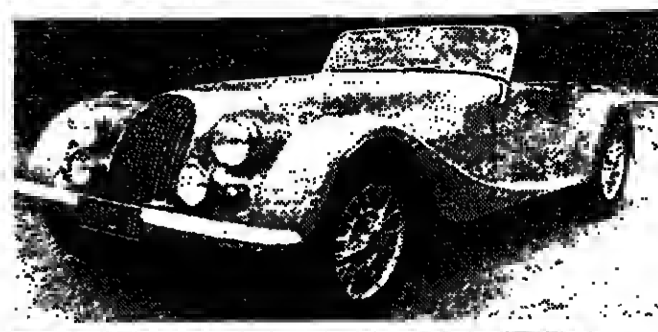
TVR is also a well-established specialist name, producing just under 1,000 sports cars a year at its Blackpool, northern England headquarters. The company, which employs 250 people, has often trodden a precarious financial path since it was founded in 1954. Run by chairman and chief executive Mr Peter Wheeler, a chemical engineer, it survives on ingenuity, flexibility and a construction system based on tubular steel space frames and glass fibre panels. The company has extensive fibre-glass activities and creating moulds for a variety of cars is regarded as a relatively cheap process forming part and parcel of the business.

It was on this basis that TVR was able to launch no less than two new cars at last year's motor show. One, the road going version of TVR's Tuscan racing car, was widely regarded as a hit of the show.

It embodies the spirit of the whole business. "That one", recalls Mr Wheeler, "I literally designed it on the back of a fag packet."

John Griffiths

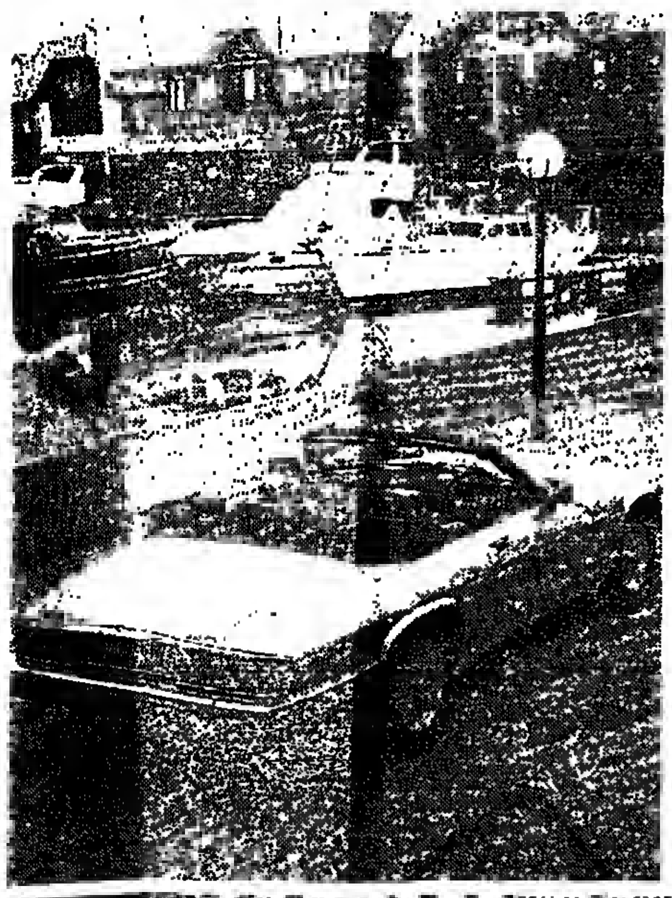
Ward: no qualms about Rolls-Royce's ability to survive as an independent. The Bentley Continental R surprised the motoring cognoscenti and is the first Bentley for 30 years to have a separate bodyshell from the Rolls Royce

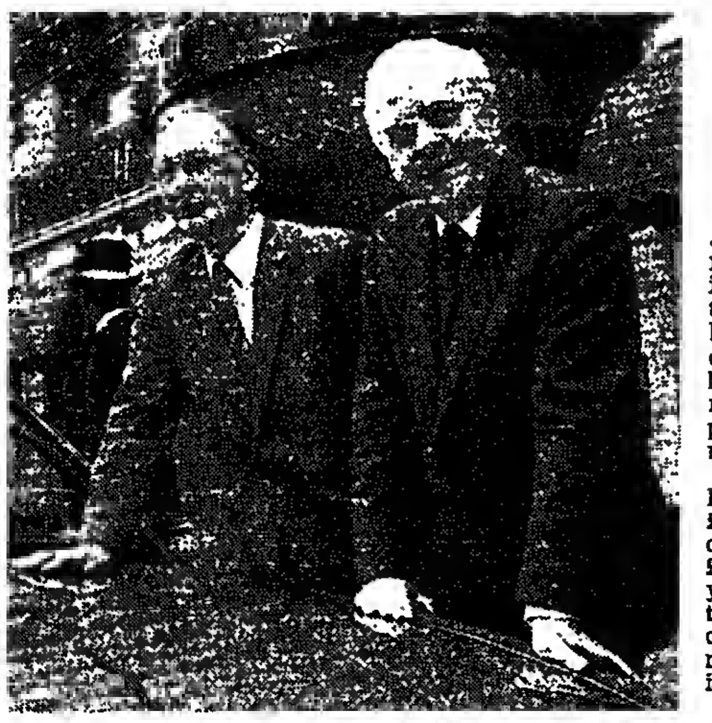


The Porsche Carrera 911 Turbo (top): the range has been re-engineered and comes with a four-wheel drive version. The Morgan Plus 8 (centre) on the fringes of the specialist market but the company maintains a healthy order book. Lotus Elan (bottom) helped to double output last year

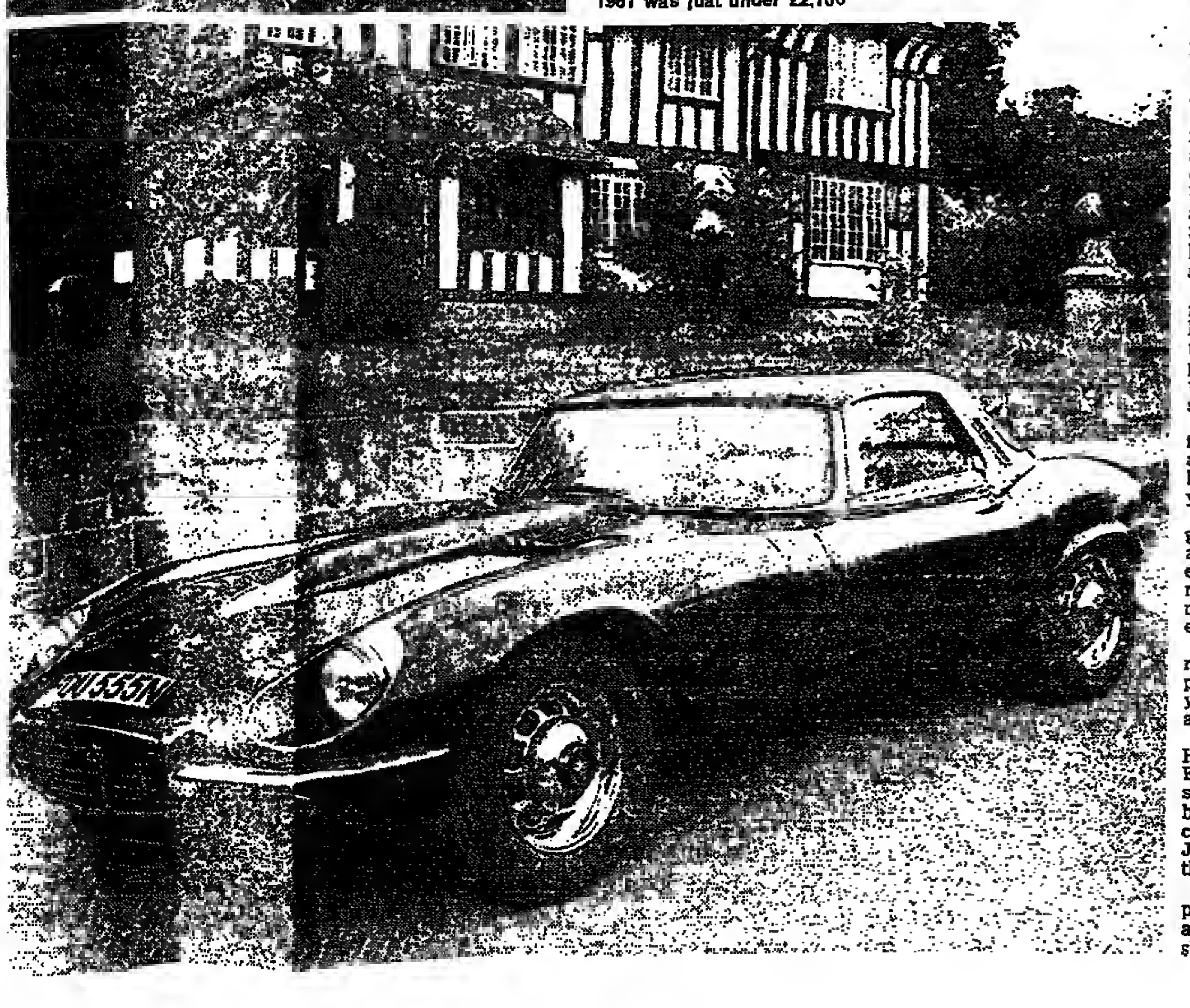
■JAGUAR: Ford's protective shield fends financial pressures

Glimmer of hope amid gloom





The XJS V12 Convertible (left). Sir John Egan (above, right) and William Hayden at the time of the announcement that Hayden was to replace Sir John when he retired in June last year. Jaguar's famous E-Type (below) which was launched 30 years ago was a milestone in automotive history. Its price in March, 1961 was just under £2,100



JAGUAR, the UK luxury car maker, was losing money when it was taken over by Ford of the US in late 1989 for £1.56bn, but the world's number two car maker could hardly have believed that the first 18 months of its ownership would provide quite such a humpy ride.

Last year Jaguar's pre-tax loss deepened to £66.2m from £58.3m in 1989, while its turnover shrank by 11 per cent to £1.02bn. It was hit hard last year both by the recession in the UK luxury and executive car market and by the weakness of the US dollar. The US is its largest single market.

Its sales worldwide fell by 9.8 per cent last year to 42,754 including a 25.1 per cent drop in UK sales. Production was cut by 13 per cent to 41,883.

The pressure on the luxury car market has intensified this year, and in the first quarter Jaguar's total sales worldwide have plunged by 45.4 per cent to only 6,774, while output was reduced by 57.8 per cent to 5,339 from 12,652 a year ago.

In the first quarter its sales in North America at 2,278 were 54.7 per cent lower than a year earlier, while its sales in the UK fell by 43.2 per cent to 2,104 and in the rest of Europe by 34.5 per cent to 1,582. The only bright spot was Japan, where sales were unchanged at 590.

The company has been forced to take drastic action to lower output and cut costs. In the first three months this year production was stopped for six weeks in order to lower bloated stock levels.

Jaguar is forecasting output for 1991 of about 34,500 cars and sales of 36,000-37,000, the lowest levels since 1984, the year it was privatised.

It is completing a programme to cut its workforce by about 1,050 people through early retirement and voluntary redundancies, and up to 500 more jobs could be cut by the end of the year.

The workforce had been reduced from a peak of 12,835 people in 1988 to 12,100 last year and is expected to fall to about 10,500 by the end of 1991.

Amid the gloom, Mr Bill Hayden, previously Ford of Europe's manufacturing supremo and the man sent in by Ford last year to follow the charismatic Sir John Egan as Jaguar chairman, insists that there are glimmers of hope.

The first benefits of the company's landmark 1991/92 labour agreement are beginning to show through in much higher productivity, and Jaguar is determined to reach quality levels with its recently launched revamped XJS coupe and convertible range, that the company had previously never dreamed of attaining.

Jaguar management admits that the first 16 months of Ford ownership has been traumatic, but the company insists that substantial progress is being made in bringing its manufacturing and product development operations into the modern world.

"Jaguar was quite an introverted company," says Mr Hayden, "it muddled through but was not aware of competitive standards outside."

Undoubtedly helped by the rapidly worsening economic environment Jaguar has managed to revolutionise its labour practices with a two-year agreement reached last November, which represents the biggest change in working practices in the company's history. It has finally eradicated shop-floor arrangements that disappeared elsewhere in the motor industry in Britain 10 to 15 years ago.

'We want a structure that is financially viable at all times. All that has changed is the identity of our banker'

Mr Hayden claims that direct labour productivity in the year since November is about 18 per cent higher than a year ago.

"We were not in a position to put industrial engineers on the shop-floor to time standard work and carry out process checks. Now we can and do."

The notorious system of "job and finish" whereby there was a tacit agreement that workers left the assembly line when a certain number of units had been produced, regardless of when the shift ended, has been stopped. There is now "bell-to-bell working".

Mr Hayden claims that the demarcation lines among the semi-skilled workers that had bedevilled the manufacturing operations have been abolished. "Before jobs were allocated by the unions. It was a metal finisher's job or a TGWU (Transport and General Workers Union) job. You could not allocate one to the other. Changing schedules or re-manning the lines was impossible."

Before Jaguar workers refused to take on tasks traditionally outside their narrowly defined duties, such as detailing problems they found, assisting in statistical process control or carrying out quality calculations. "All that has gone," says Mr Hayden.

At the same time, group leaders are being appointed for the first time from among the hourly workers to assist in tracking quality and production problems and with an ability to work horizontally through the organisation rather than through the management hierarchy.

The unions previously decided the allocation of overtime, now management has regained control although it has undertaken to publish openly its requirements so that there can be no suspicions that it is abusing its newly-won powers.

Ford's ownership of Jaguar has had an equally purgative effect on the company's engineering and product development functions. Plans for a new sports car – the heir to Jaguar's legendary E-Type – which had been under development for several years were finally scrapped last year, when the company realised that it was proving unable to meet the cost, specification and performance criteria it had established for the project.

At the same time, the new top management inserted by Ford and led by Mr Hayden has insisted on tough new quality standards. The launch of the revamped XJS coupe and convertible range was delayed for about four months until the required standards could be reached. Jaguar has spent about £50m on revising the range – priced from £33,400 to £50,600 – the most comprehensive changes made since the XJS was launched in 1975. Nearly 40 per cent of the car's body panels are new and overall there are 1,200 new or modified parts.

Engineering changes to make the car easier to manufacture along with changes in process and labour practices have cut the hours per car by about 19 per cent.

Mr Hayden has brought with him from Ford the US car maker's UPAS (uniform product assessment) system for measuring quality, and he insists that the new XJS will be introduced with the defects per vehicle cut to only one third the level that existed a year ago. "No one had the confidence a year ago to believe that possible."

At the same time Jaguar is moving quickly to address weaknesses in its worldwide distribution and dealer network, particularly in Europe. It has taken control of its distribution in Germany and Italy, Spain follows later this year, and it will control distribution in all its main European markets within five years.

For the long-term Ford has heady ambitions for Jaguar, which is planning to more than treble output by the end of the decade to more than 150,000 cars a year with the launch in the second half of the 1990s of a replacement for its XJ6 luxury saloon range and the introduction of a smaller, sportier Jaguar saloon range to challenge the likes of the BMW 3 and 5-Series.

However, the ambitions come with another £1bn price tag, for development and capital investment costs, and Ford will need a steady nerve in its present troubled times.

Mr Hayden warns, "we will not spend money that cannot be justified in the long-haul. Cash flows are negative to what we thought they would be. There will be changes in spending plans in coming years. We will push product work over a longer period to conserve cash."

The Jaguar chairman says that financial pressures on the company are forcing it to delay by up to 12 months the crucial new model development programmes planned for launch in the second half of the decade.

Ford has given Jaguar the opportunity of planning for the long-term and for the development of a model range that would have been impossible if Jaguar had remained a small independent specialist luxury car maker.

However, the US car producer has its own more immediate financial pressures with mounting losses in its core North American automotive opsrations, which could impinge on Jaguar's own spending plans if left unchecked.

Mr Hayden insists that in the long-term Jaguar must justify its own existence financially. "We want a structure that is financially viable at all times. All that has changed is the identity of our banker."

Kevin Done

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If ever a car was equipped to soothe you as it moves you, it is the Carlton CDX.

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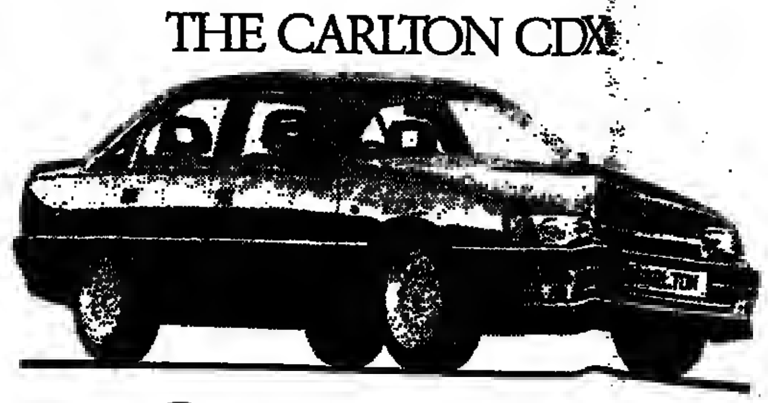

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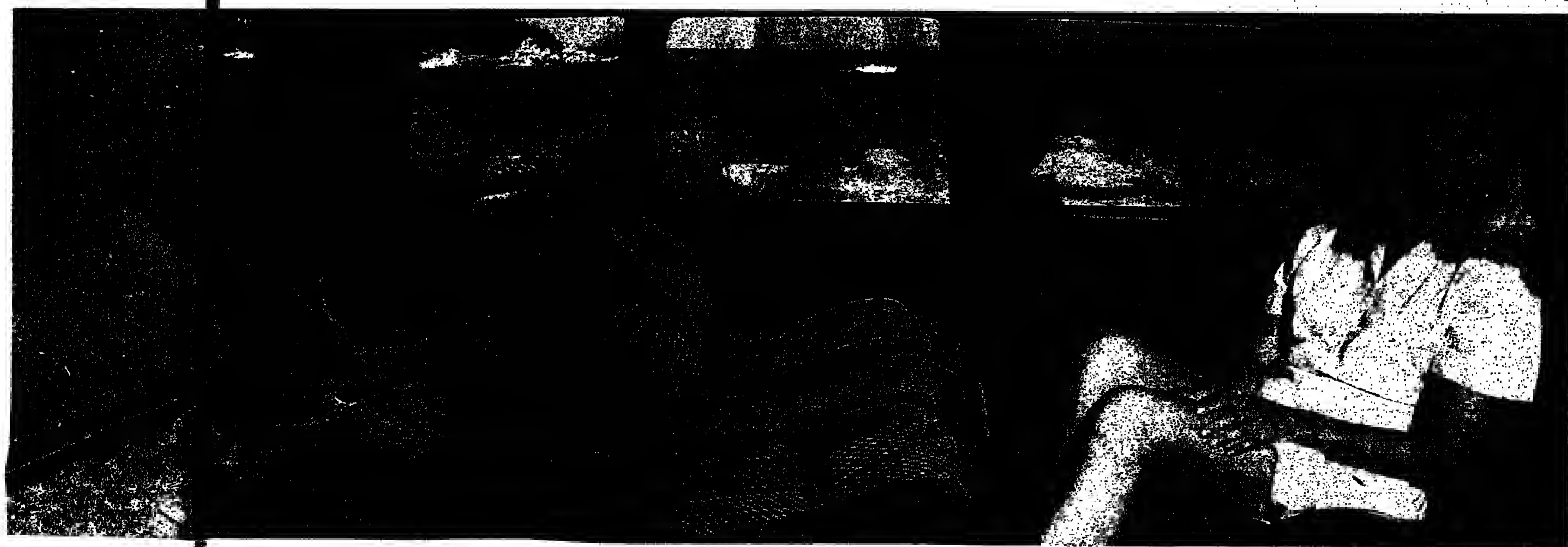

QUATRE, CINQ, SIX OR SEPT.

A change they say, is as good as a rest.

So considering the potential for change within Renault's new convertible, the all new Espace, the owner should be positively restored. In the normal course of events, and taking up the option of se[illegible] seats, the Espace falls neatly into the category of luxury limousine.

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(eg Renault Espace)

Year of registration ______ Date of expected replacement ______

RENAULT ESPACE

All Renault Espaces have a 12-month unlimited [illegible] warranty with free RAC membership and an 8-year anti-corrosion warranty. Car featured Renault Espace RXE 2.9 V6 with optional 2 additional rear seats inc. est. on-the-road cost £24,410. *Optional on RN model. **Compact disc player only available on RT & RXE models. †Range starts from Renault Espace RN 2.0 inc. est. on-the-road cost £17,390. Prices and specification correct at time of going to press. Renault UK Ltd., Western Avenue, London W3 0RZ. RENAULT recommend elf lubricants.

EUROPE is the centre of the world's car industry, producing almost 40 per cent of the 35m or so automobiles made annually. In the heart of Europe, Germany's car factories turned out 1.7m units in between January and April, a 4 per cent increase on the same period last year.

Demand from east Germany continued to increase with new car registrations throughout Germany up a strong 25 per cent in the first quarter of 1991. This makes it just about the world's only hot spot for car sales. Domestic demand is the only thing lifting German car manufacturers, since exports fell 27 per cent during the first quarter.

All of these new cars mean that Germany's roads are more crowded than ever. During the past three decades, the

One of the first road schemes will be to build Autobahn links between east and west Germany

number of registered motor vehicles in Germany more than quadrupled from 8m to 36m. The new freedom to travel means east Germans, Poles, and Hungarians are all flocking west to see what the modern world really looks like.

No wonder the weekly magazine Der Spiegel recently pictured Germany's church steeples and skyscrapers on its cover, drowning under a sea of cars. Not only are there more of them, but everyone is driving more. Lorries clog up every Autobahn heading east, trucking in all the Western goods which are in demand there.

The consequence can be heard every hour on German radio. Reports of bumper-to-humper traffic jams often last longer than the news. Anyone hoping to rush along the no-speed-limit Autobahns is best advised to drive late at night, and even then convoys of lorries fill the slow lanes.

Obviously when it comes to traffic, more means less. The more cars, the less mobility for everyone. Rush hour in any of the world's big cities is actually creep hour for drivers. Along Frankfurt's busy Adickesalle ring road, surveys show about 70,000 vehicles passing in a 24-hour period.

One recent survey revealed German drivers spend an average of 65 hours each year sitting in traffic jams. Once you deduct the average six weeks annual vacation in Germany, that works out to about 1.5 hours per working week, or 18 minutes every day, sitting and waiting for the car in front of you to move.

Yet it is exactly during the summer vacation period when Germany suffers most from its *Super Stau* (traffic jam), with southbound vacationers often backed up 50 kms or more.

Traffic planners get paid to try to rationalise this flow of vehicles. But the rise in numbers of vehicles on the roads make such efforts appear fruitless. Munich, for example, has 600,000 registered cars. If everyone tried driving at the same time, no one could move, since statistically there are four meters of city street for every car.

No wonder more and more cities are studying the example set by Zurich, Switzerland. City planners there have cut back vehicular traffic by making parking and driving even more difficult, and thus less comfortable.

Zurich has gone so far as to narrow some four lane streets to two lanes, while reducing the number of parking spaces in the inner city. Such drastic measures are complemented by a clean and efficient public transit system. In Zurich's case, trams and the tram lines are outfitted with electronic sensors, helping to keep them *Punktlich* or right on schedule.

The A2 Autobahn east of Hanover: there are some 36m cars on Germany's roads

■CONGESTION: a German perspective

Staying afloat on a sea of cars

The German Automobile Industry Association (VDA) in Frankfurt, has developed its own *Gesamtverkehrskonzept* (complete traffic concept) which is more driver friendly that Zurich's draconian methods. One of the first priorities, suggested the manufacturer's group, is to improve the roads in east Germany. Just to get the existing roads there up to west German standards will cost DM58bn says Mr Achim Diekmann, VDA executive director.

The *Bundesregierung* plans to spend DM2.5bn in 1991 on road improvements in east Germany. To help pay for the extra costs, they are spending less in west Germany and also increasing petrol taxes.

In this regard, Germany is following the principle of road pricing, meaning those who drive the most should pay the most. The government's courageous 25 per cent increase in petrol tax as of July 1 will mean an extra DM12b in annual revenue.

The petrol tax bill will then be close to DM50bn annually. This is more than double what the government spends on its road system, says Mr Diekmann.

Busy London traffic on Victoria Embankment

One of the first road improvements will be to build the missing Autobahn links between east and west Germany. There are 8,700 kms of Autobahn in west Germany, which is less than 2 per cent of the area's road network. But the Autobahns carry about one-fourth of the traffic. The east German Autobahns are quaint cement ribbons first built in the 1930s and 1940s and require a lot of roadwork to accommodate the increasingly mobile population.

In addition to overcoming the obvious infrastructure deficits, the VDA suggests a better use of technical possibilities to guide traffic. This will mean building information receivers and sensors into cars to provide drivers with traffic information as well as help reduce the risk of accidents. Considering the mass accidents often involving more than 100 vehicles whenever fog covers Germany's highways, such warning devices, still in the making, appear long overdue.

The VDA realises cars must share an increasingly limited inner city traffic area, and therefore suggests better co-ordination between private and public transport, such as Park n Ride parking lots built near outlying train stations.

The government must quickly find a balance between infrastructure supply and demand to ease the strains on the transport system. The *Bundesbahn* (German national railway) introduced its new high-speed ICE trains connecting Hamburg to Munich via Frankfurt and Stuttgart on June 2. Moving at more than 200 kph used to be reserved for motorists on the Autobahn's fast lane. If Germany's new high-speed trains can help reduce road traffic – something France's TGV trains did for the Paris-Lyon route – it will be a good thing for the mobile 80m populace.

Dennis Phillips, *Frankfurt*

The Votex-equipped Audi 100 2.8E quattro

Commerzbank spends DM10m annually on cars

A good local image

NO meeting of top German executives would be complete withont rows of long, sleek limousines, usually dark blue, hlack or even silver grey – the majority of them with a Mercedes star topping their rakish grill.

Unless of course you are hased in Bavaria, in which case it is considered more patriotic to be driven about in a BMW. Since the latter's 12-cylinder 750iL model also has the advantage of being able to pass almost any Mercedes or Porsche on the Autobahn, it does have its advantages. Prestige is sometimes equated with speed.

While board members tend to restrict themselves to top-of-the-line Mercedes or BMW sedans, the majority of Germany's company cars are naturally less spacious, less expensive and definitely not passing Porsches. Volkswagen's Audi, Opel's Vectra, or Ford's Scorpio are some of the standard models for middle management types.

Just what criteria do German companies apply wben *ordering company cars*? At Commerzbank, number three of Germany's Big Three banks, Mr Erich Söhl purchasing director explained the criteria for who gets what kind of car.

"We are a branch bank, and with more than 900 branches we need cars," says Mr Söhl. Of Commerzbank's more than 28,000 employees, every main hranch manager has his or her own company car. In addition, every deputy director and above in the Frankfurt headquarters is also entitled to a company car.

While one might think every bank manager would be driving a Mercedes, the car selection is spread among a vast array of models and makes.

"The branches ask us, and then decide based on their relations with local car dealers," explains Mr Söhl. "Everyone knows exactly what he wants, *down to the colour of the car* and the size of the tyres. If possible we fulfil their wishes."

Commerzbank executives serving in more than 30 overseas locations are expected to drive locally-made cars. Not only does such a policy help make a good impression on local customers but also save the sometimes more than 100 per cent import taxes levied on luxury car imports.

Normally the bank purchases a few hundred cars every year. A Commerzbank car is expected to stay in service for 120,000 kms hefore it is

The bank's car selection is spread among a vast array of models and makes

replaced. The bigger, and more expensive models, such as a Mercedes sedan, are expected to last 150,000 kms before being replaced. The bank spends almost DM10m annually for new cars.

Last year was more hectic *than usual*, since the fall of the wall resulted in a large demand for west German bankers as well as west German cars. Delivery times for most of Germany's car manufacturers were pushed back several months.

Commerzbank qnickly assigned bank managers from west Germany to open more than 50 new branches last year in east Germany. With another 50 branches opening there this year, the bank's executives needed new cars immediately.

"If someone saw a model he wanted at his local dealer that he could get immediately, we said buy it," says Mr Söhl of the rush to east Germany. Most Commerzbank executives based in the east drive home to their families in west Germany on the weekends. But by the end of 1991, more than 1,000 of the bank's 1,600 employees in east Germany will be locals.

Like most *companies*, Commerzbank pays all expenses for its cars, including petrol, taxes, insurance, parking fees, and repairs.

Standard features for all the bank's cars include catalytic convertors, *anti-lock* hraking systems, fog lamps and a radio-cassette player. The most popular extra option selected and paid for by many Commerzbank executives is air conditioning.

German executives may drive their company cars for private use, hut are then taxed on 1 per cent of the car's purchase price per month. For a DM30,000 car, the tax on DM300 would he about DM100 per month, which is deducted from the executive's salary.

With more than 4,500 Commerzbank employees working in Frankfurt, the rank and file (those without a company car) are discussing whether the bank will help subsidise public transport tickets. Frankfurt's local transit authority bas agreed to discounts of up to 50 per cent off for companies who agree to buy monthly tickets for all their employees.

Getting to work used to be all part of the job. Executive cars serve as a reward for hard working executives while supposedly easing their way to the office. Now Commerzbank and other city *centre companies* are considering whether subsidising their staff's use of public transport is also in their interest.

One newly-promoted Commerzbank executive enjoys the privilege of driving his new Audi 100 to work. Unfortunately morning traffic jams mean it can sometimes take up to 90 minutes longer to get there than using the local commuter train. The obvious solution to this country's traffic congestion are business class commuter trains – with the companies paying for the tickets, of course.

Dennis Phillips

■COMPANY POLICIES: a pause for breath to digest the Budget

Tax doubts block road ahead

THE latest Budget was not well-received hy the motor industry. The manufacturers felt that once again the motorist – and particularly the company car driver – was being singled ont for punitive and unwarranted attention. Private buyers are suffering the VAT increase and duty increases on fuel; while businesses, trying to cope with a well-entrenched recession, find that the cost of running and administering their company car fleets has increased still further.

Interestingly, on the very same day as Mr Nigel Lamont, the chancellor, carried his battered red despatch box into the House of Commons, most of the rental and leasing industry's chiefs were gathering in London for the annual dinner of the BVRLA (British Vehicle Rental and Leasing Association).

Much of their reaction to the Budget was unprintable. The initial fear was that companies would extend contract times and try to save money by hanging on to cars longer, or that they would be forced into downsizing hy the tax regime, or even that they would stop providing company cars. And since the vast bulk of the vehicle leasing and contract hire industry's business involves supplying and running vehicles for company car fleets, none of these possibilities gave rise to optimism for the future.

However, in the two months or so since the Budget, nothing remarkable has happened. The new car market continues to fall and is some 25 per cent below last year's and it is noticeable that while the fall hss affected all sectors, the executive and luxury manufacturers have taken a bigger tumble tban the small car manufacturers. The reasons probably have more to do with tbe general recession than with specific measures being taken to counteract the more painful aspects of the Budget.

This is not to say that the Budget will not have its own ...rm effects. According to ...h Walden, managing

Norman Lamont's Budget found few supporters in the motor industry

director of *Lex Vehicle Leasing* – the UK's largest vehicle leasing company – wbat is noticeable is that many companies are reconsidering their wbole company car policies: "Some companies are now *wondering whether* it would be more tax afficient to pay a mileage allowance instead of providing a company car, but it is very difficult to come to any conclusions.

"It is not yet clear whether VAT should be charged on mileage allowances as a taxable supply – which is what Customs and Excise are suggesting.

"It is also not yet clear bow tha Inland Revenue will treat s situation in which a company offers either a car or a mileage allowance. The Revenue has suggested that if a company offers a choice, then the value put on the car allowance would becoma the value st which company car drivers should be taxed – and *this may* be at a mucb higher level than the current scale charges.

"So until these points are clarified, companies cannot really make up tbeir minds," says Mr Walden. "Tbougb there is no doubt that it is becoming less tax-efficient to supply vehicles to employees, it is such an established way of life that I believe company cars will be with us for many years to come. Old habits die hard," he says.

He believes that once the UK pulls oot of recession, companies will again start recruiting and taking active steps to retain good quality staff and tbe company car remains a potent tool. "People will want to retain the benefits of a company car but will be looking at ways to minimise the tax they have to pay.

"Already in the last year we have seen a shift in demand towards cars of under 2 litres and away from those with bigger engines. A move to smaller cars looks inevitable, particularly as some of the 1.4 or 1.6 litre cars have been improved so markedly in recent years in terms of specification, refinement and quality that people may be less reluctant to trade down than they might have been earlier."

The same point is made by Mr Stephen Barrett, managing director of Masterdrive: "Drivers are far more aware of the critical tax bands – the 2-litre limit and the £19,250 limits in particular, that is why cars costing £19,500, or with engines of marginally over 2-litres are simply not selling as they used to.

"However, we have not yet noticed any significant downsizing and nor have we yet seen any evidence that cash alternatives or mileage allowances are being offered. Many of our corporate customers are looking at this but I have yet to come across one which has abandoned the company car because it still represents a definite benefit valne."

Mr Barrett's view is that it would take at least one and probably two more stringent budgets to eliminate the company car from the British way of life. "Companies are looking very closely at their overall costs and large numbers are now extending their replacement times, from two to three years, or from three to four. I'd estimate that 75 per cent of our customers are looking at this as a short-term measure."

Martin Derrick

LEASE OR BUY

Outright purchase still lures companies with spare cash

NOT so many years ago, the hig decisions to be made by fleet managers revolved around the models chosen for company employees to drive. Vehicles were either bought outright or acquired on hire purchase and an in-house manager dealt with day-to-day prohlems snch as insurance, maintenance and buying new tax discs.

As the overall cost of running company car fleets increased, so did the realisation that ontside specialists could not only remove an administrative hurden; they could also save significant sums of money and ensure that the most tax-efficient and halance-sheet-friendly decisions were made.

Hence the rapid growth of the contract hire and leasing industry which offers a bewildering array of products and packages for consideration. Ontright purchase and hire purchase are still around, but other possibilities include contract hire, finance lease, operating lease, lease purchase and *fleet management schemes*. And with every change in overall tax regimes come new packages aimed specifically at ensuring that the overall cost of running a fleet is kept to the absolute minimum.

Nearly 60 per cent of all UK company cars are still bought outright, according to the 1991 Monks Partnership Company Car Policy UK Guide.

The advantages are clear: cash-rich companies might as well use their own funds *rather than borrow in* order to acquire a fleet, and having got the cars the fleet user enjoys complete flexibility and control over its make-up and operation. The user enjoys the benefit of the ultimate residual value of the car while during its life with the company, a 25 per cent writing down allowance np to a maximum of £2,000 a year (full writing down allowances for cars costing more than £8,000 are not permitted) can be claimed and offset against taxable profits.

However, the cash tied up in vehicles could well be better employed elsewhere within the core business and cars are a rapidly depreciating non-earning asset. Even a relatively small fleet of 25 cars will absorb cash resources of some £200,000. Operating costs cannot be accurately predicted, residual values may be lower than anticipated and the cars may be bought at a premium. There is a considerable administrative burden associated with locating, huying, maintaining and selling vehicles.

Furthermore, the cars have to be capitalised on the balance sheet and this may be disadvantageous to a company whose performance is measured hy return on assets.

Because of tha disadvantages, some companies have turned to leasing their vehicles.

Some specialists offer a variation on the contract hire and fleet management schemes

Companies leasing cars do not claim the 25 per cent writing down allowance (which is claimed by the lessor as the legal owner) bnt they still have to capitalise the cars on their balance sheets. The lessee charges the monthly rentals against taxable profits but again this is restricted for cars costing more than £8,000. VAT can normally he recovered. The rentals themselves are often reduced because a final balloon rental equivalent to the anticipated resale price of the car is allowed for.

However, there are disadvantages here too. Cars are still on the balance sheet, the administrative burden remains and the user still has the responsibility for monitoring and controlling costs.

Lease, purchase, hire market share (%)

	1990	1991
Purchase	61.2	59.3
Lease	17.2	16.1
Contract hire	21.3	24.3
Other	0.4	0.3

Source: Monks Car Policy UK Guide

Lease purchase is another option. In effect, this is hire purchase hy another name under which the user ultimately owns the car and so can claim the writing down allowances. Since rentals do not attract VAT, this can be an advantage to exempt or partially exempt companies. However, the overall costs may be higher – because the lessor cannot claim the tax allowances – and, like leasing, the cars *appear* on the lessee's balance sheet.

Contract hire seems to be the fastest growing new financial product in this sector.

This is a lease under which the contract hire company also *provides other services*. Typically, it will hny the cars, administer them throughout their contract and then sell them at the end. This is one of the two advantages of contract hire – literally all the company has to do is pnt fuel and oil into the cars (and even this may be administered under a fuel card scheme). Clearly, there are massive administration burdens that are relieved under such a scheme but the costs may be high.

On the other hand, companies know in advance exactly what the monthly rentals are going to be so budgeting is simple.

The rental is charged against the company's profit and loss account. The services element of the rental is fully allowable for tax purposes though the finance element (depreciation plus interest) is restricted by the over £8,000 formula. Cars do not have to be capitalised on the balance sheet which is an advantage for many companies.

The administrative savings can also be achieved by companies buying their cars outright simply by employing a fleet management company to run the fleet on their behalf in return for a monthly fee. Typically it would bny, maintain and service vehicles, and it may dispose of them too.

One or two leasing specialists – following the lead of Lease Plan UK – now offer a variation on the contract hire and fleet management schemes under which all the financial details of each car are disclosed at the outset, including the cost of tha car, the anticipated running costs and the assumed residual value.

The cars are supplied and the running expenses are paid

Nearly 60 per cent of all UK company cars are still bought outright

by the leasing company, so all the administrative burden is relieved. The tax treatment is the same as for contract hire. However, should the cars cost less to run than anticipated, then at the end of the contract period the fleet user receives a cash refund.

This scheme – called Open Calculation by Lease Plan – is just one example of how the leasing and contact hire industry is seeking ever more sophisticated packages to offer the company car market.

What seems certain is that, as taxation and finance considerations come further to the fore, and as more and more finance packages and options are made available, the decisions to be taken by fleet managers in future are not going to get any easier.

Martin Derrick

Saab CD: a new burst of product activity is expected following the taking of a 50 per cent stake by General Motors

Ford Scorpio: the best selling executive car in the UK although produced in Germany

John Griffiths argues that the European executive is spoilt for choice

UK bosses remain in pole position

THE still widespread perception that the UK is unique among western European countries in the extent to which business offers cars to its executives is being gradually dispelled by an increasing number of studies.

Such studies show the "perk" executive car to be widespread in all but a few countries. The UK might still lead the field in terms of the volume of cars provided, but some countries such as Germany are not far behind.

According to the European Company Car Survey* published earlier this year jointly by the UK-based Monks Partnership and the Dutch-owned Lease Plan vehicle leasing group, the 96 per cent of UK company chairmen who have their car bought for them by the company is matched in Denmark and Ireland, with France, Germany and Italy close behind at 95 per cent; Spain at 94 per cent, Belgium 93 per cent, Austria 92 per cent, Netherlands 89 per cent and Sweden 86 per cent. Even in Switzerland, least susceptible to the company car, 74 per cent of chairmen have their cars provided. The pattern is similar, albeit at lower absolute levels, for other directors, senior managers and even sales representatives.

Whereas Switzerland offers other directors cars in only 32 per cent of cases, the figure in next-lowest Austria is 68 per cent.

It is at senior manager level that the UK perk phenomenon shows up most strongly.

In functions such as sales and marketing, the UK leads at 99 per cent provision. Germany is close behind at 94 per cent and both Denmark and Netherlands in the 90-plus range. Italy and France are at much lower levels: 67 per cent and 52 per cent respectively.

Sales and marketing executives are predictably relatively high mileage business car users, and it is in the case of more static functions, such as finance, that the UK perk provision show up most clearly of all. The provision level is still 96 per cent in the UK, but drops to between 78 per cent and 52 per cent for the next half-dozen top ranked countries.

The main questions for manufacturers are: how much freedom do such users have to choose their own make and model with the company's cash, which models do they choose, and why.

In terms of freedom of choice, the Monks survey throws up relatively small differences between most countries. At director level in the UK only 5 per cent of companies are shown as offering the director no choice, with 55 per cent offering choice from a list and 40 per cent mainly free choice within a cost limit. The no choice element is higher in most other countries – between 20 and 35 per cent – with Italy highest at about 50 per cent, although Monks acknowledged the Italian data to be scanty and perhaps unrepresentative.

The choice from a list option runs from a low of 30 per cent in Spain to 75 per cent in the Netherlands, with most countries in the 40-50 per cent range (UK 55 per cent). In most countries, about 40 per cent opt for freedom of choice within a cost limit.

So what do they choose?

Research shows a fair degree of chauvinism, with France leading the pack. UK-based manufacturers have most reason to wish that British businessmen would display some, at least, of the same nationalism. The ageing Renault 25 is shown by Monks and Wyatt, a consuluancy group to be the leading French executive car, with the Peugeot 605 rival moving op fast.

Germany's executive car market is dominated, predictably, by German manufacturers, led by the BMW 5-Series, Mercedes 260 and the Audi 100. The recent launch of BMW's new 3-Series range, the double-glazed S-Class Mercedes and the all-new Audi 100 are expected further to tighten the grasp of the German industry on its own executive car sector.

Given that the Fiat group dominates Italy's vehicle industry – embracing Lancia, Alfa Romeo, Ferrari and Innocenti – it is no surprise that Lancia's Thema, followed by the Fiat Croma and Alfa Romeo 164, should dominate the Italian business sector.

Those west European countries with little or no indigenous vehicle manufacturing show leanings towards German-produced cars, particularly Mercedes. The fact that the Ford Granada is produced only in Germany has done little to alter its perception of being British in the UK, where it is the best-selling executive car, followed by Rover's also-ageing 800 and Sterling models, and General Motors subsidiary Vauxhall's Carlton and Senator ranges. For UK chairmen Jaguar – now owned by Ford – remains the most popular choice, although recession has slashed its sales and output savagely during the past year.

Of Japanese cars, there is little mention in the executive car surveys. Wyatt's survey singles out the emergence of the Toyota Carina as a popular car with middle management in Ireland, and Monks finds the same with Toyota's Camry in the same country.

However, the European industry knows perfectly well that this will not last. Toyota's first car pitched squarely at the mainstream Mercedes/BMW 7-Series market, the Lexus LS400, is selling better than Toyota dared to hope in Europe, and the saloon will soon be joined by a coupe model which has gone on sale in the US.

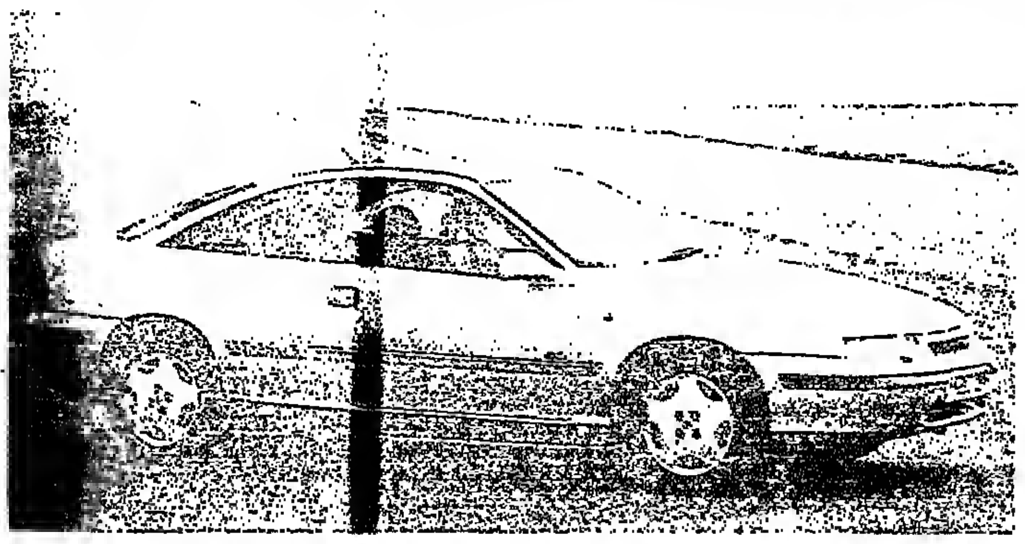
With Nissan manufacturing Primera saloons in the UK, and both Toyota and Honda to follow within the next year, these manufacturers stand to benefit from much-expanded awareness within the European markets, and from what should be much easier EC market access post-1992. So should Mitsubishi with Japanese car of the year-winning vehicles such as the Sigma, incorporating four-wheel-drive, four-wheel-steering, electronic suspension and other innovations claimed by Mitsubishi to make it among the most technologically advanced cars in commercial production.

At that point, European executive car makers will have an increasingly fierce battle on their hands for survival.

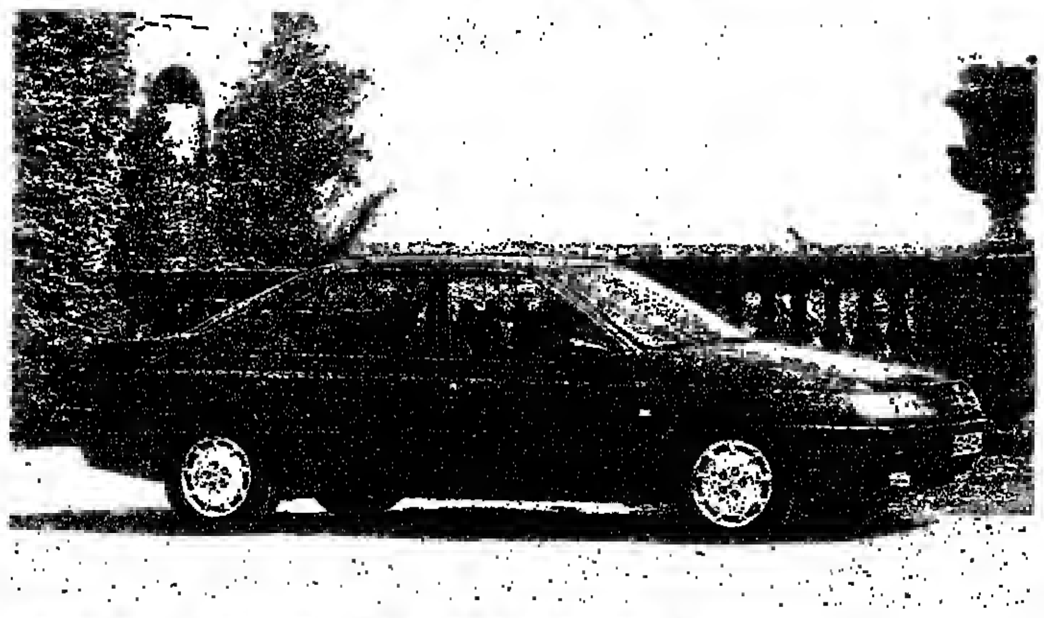
They are far from idle. BMW, for example, with the aid of its FIZ engineering and research and development centre in Munich which houses no less than 6,000 engineers and research and development staff, has beeo hard at work on cutting new model lead times. The simultaneous engineering methods being developed there are expected to cut BMW's new model lead times by anything up to two years.

It has been instrumental in allowing BMW to introduce new 8, 5 and 3-Series cars within a very few years of each other, plus the niche market Z1 sports car. BMW is expected to launch within a year a sporty new coupe, based on the 3-series but with a completely different body.

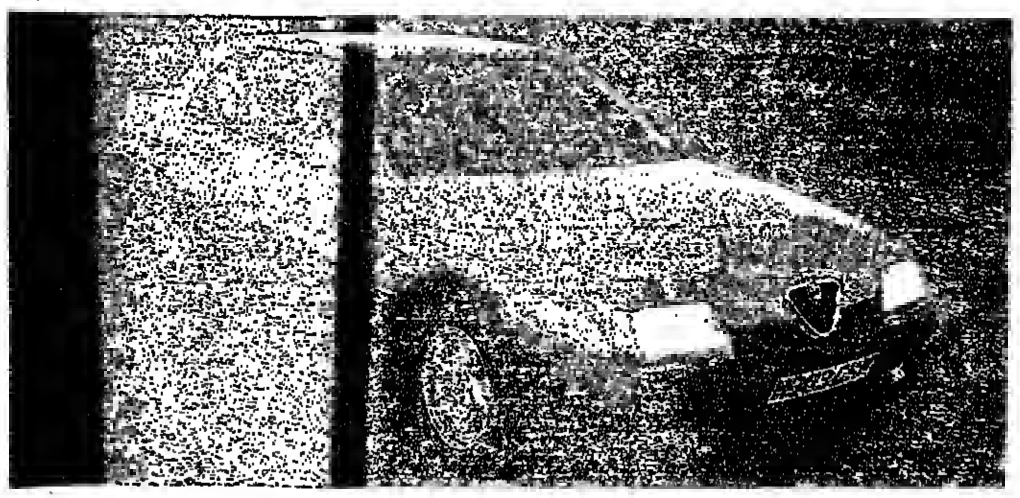
Volvo 960: part of the flagship 900 series launched last year



The sporty Opel/Vauxhall Calibra is enhancing General Motors' product image in Europe

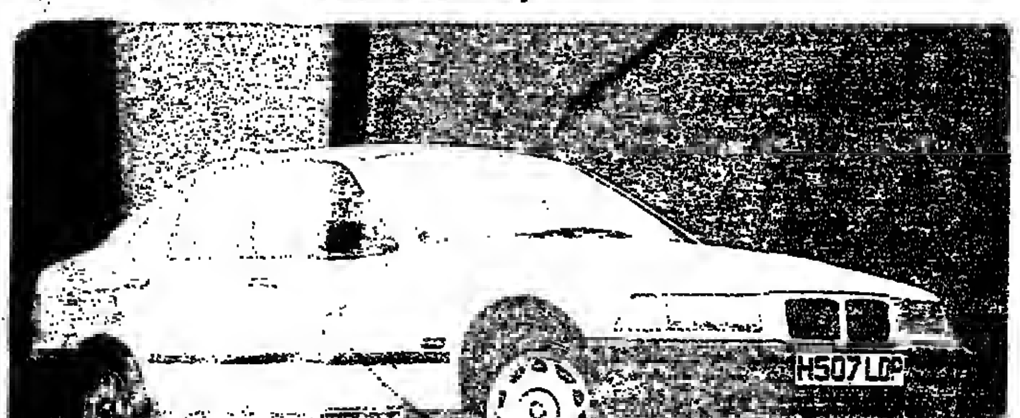


Peugeot 605: in France it is moving up fast on the Renault 25



Alfa Romeo 164: part of Fiat's dominance in Italy

Fiat Croma: expected to take a large part of the Italian business sector



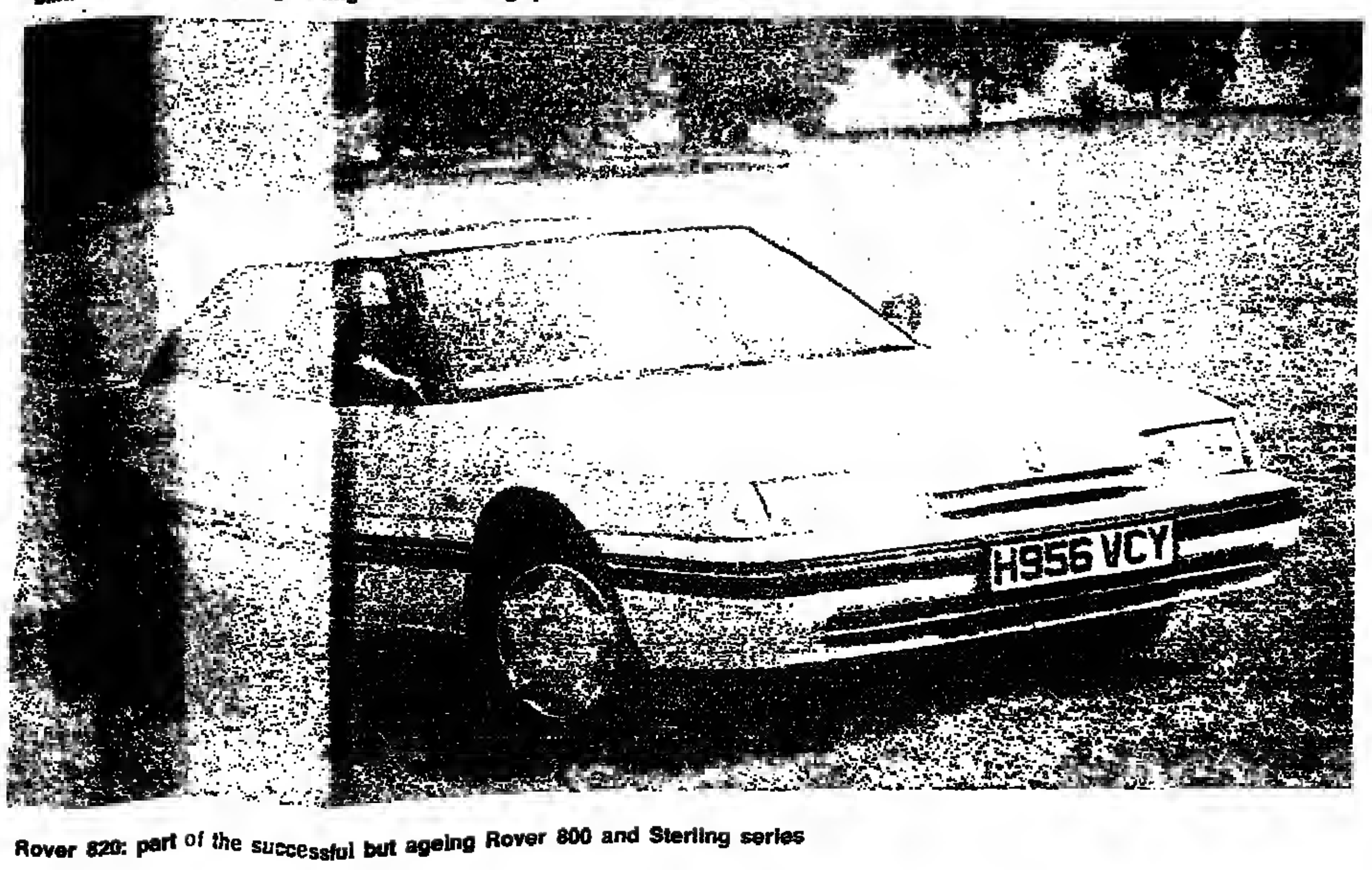
BMW 3-Series: further tightening the German grip on its executive sector

Meanwhile Rover, alarmed by sharply falling sales of the 800 executive car model it developed jointly with Honda, has brought forward by one year the replacement models, code named 17/18 and due to be launched this autumn. There has been no collaboration with Honda on the project. A coupe is expected to follow a year later.

Alfa Romeo, which has received a large sales lift from its 164 executive range, expects to spread its appeal further down the executive market later this year with a new 75 model, based on the floorpan of the Fiat Tempra and with front wheel drive instead of the old 75's rear wheel drive. Fiat is hoping to inject fresh life into flagging sales of its Croma executive car outside of Italy with a just-facelifted version incorporating a restyled front end and other improvements.

Meanwhile Volvo, now in alliance with Renault, is finally replacing the 200 executive saloons which can trace their origins back to the mid-1960s. The new front-wheel-drive models, designated the 850, are expected to go on sale this autumn with new, five-cylinder engines. The cars are seen by Volvo as complementary to the flagship 900 series cars, themselves launched only last year.

A burst of product activity can be expected from Saab, following the taking of a 50 per cent stake by General Motors.

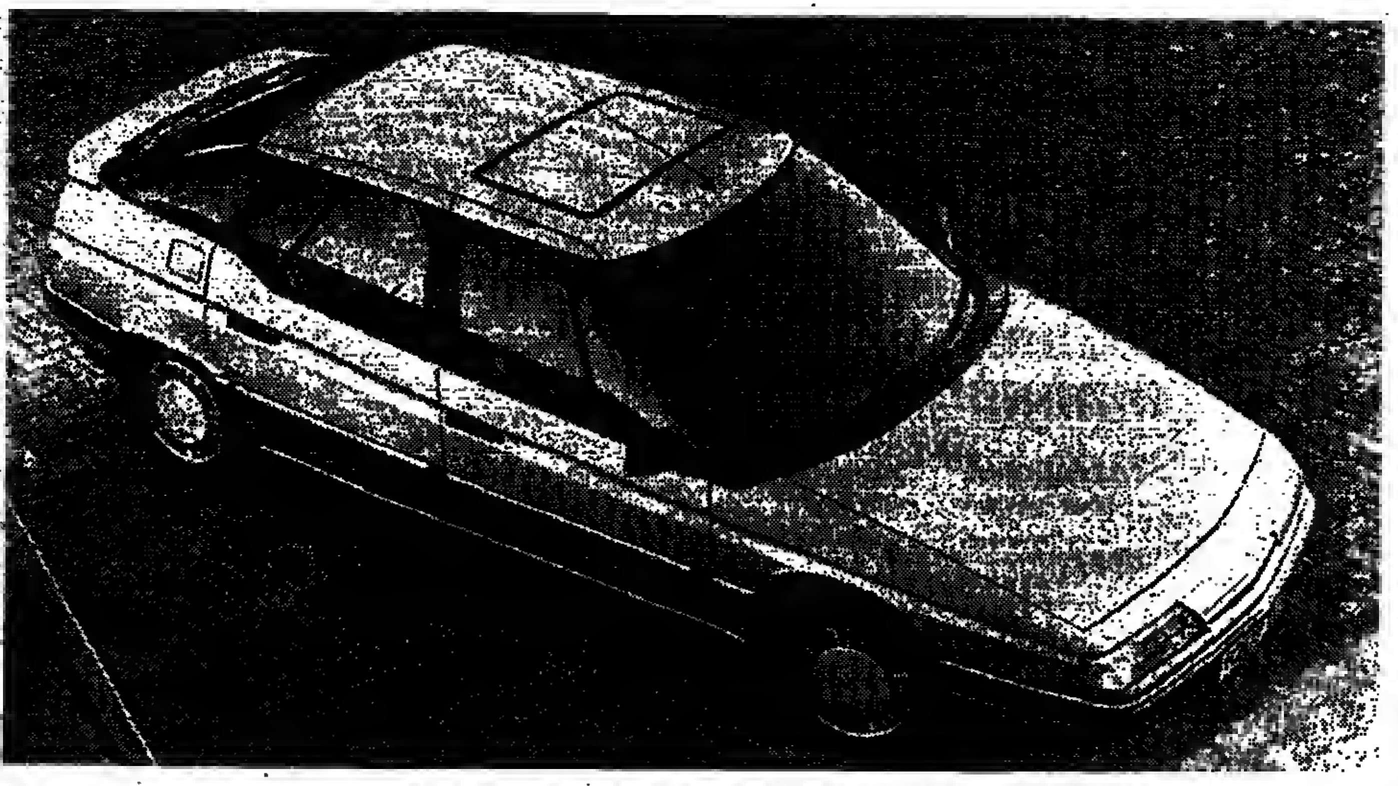


Rover 820: part of the successful but ageing Rover 800 and Sterling series

Mitsubishi Galant: the company is set to become a fourth Japanese car maker in Europe with a production alliance with

■DIESELS: gaining popularity in the UK

A benefit to the environment



Citroën XM Turbo SD: covered 700 miles from Wales to Le Mans, France on one tank of diesel

Diesel cars save fuel and protect the environment by reducing toxic exhaust emissions. Their benefits are widely known in many mainland European countries. For example, in France, close to 40 per cent of all newly registered cars are diesels and their use is encouraged by taxation.

In Britain, they have been gaining popularity fast, though from a low base. From 77,849 units five years ago, diesel car registrations rose to 128,167 in 1990. So far this year they have been running at an annual rate of more than 150,000 – and this in a total car market nearly 25 per cent down on 1990.

Many diesel cars that are familiar on mainland Europe are unknown in the UK

The UK diesel market is dominated by PSA, whose Peugeot 205, 309 and 405 and Citroën BX have been fighting among themselves for the top four places. Whereas in most European countries it is the medium and large car buyer who is drawn to diesel power, in Britain nearly all the growth is in the lower reaches of the market.

The reasons are simple. No country in the world hands out cars to employees at the rate British companies do and, given a free choice, most people would prefer to drive a petrol-engined car – especially if the petrol is paid for.

Because a diesel develops less power than a petrol engine of similar size, all of the larger executive class diesels are of more than 2-litres cylinder capacity, which puts them in a higher tax band. This accounts for the penetration of diesel in the executive sector being many times lower than it is in the under 1.8-litre class.

One of the leading makers is Mercedes-Benz. In Britain, one in 10 of the cars it sells – all in the executive or luxury executive class – is a diesel, though diesel penetration by all makes in the segment is only a little over 4 per cent.

Another factor that has not helped diesel to make much headway with executive car buyers is the limited availability of automatic transmission.

Only Citroën, Mercedes-Benz, Vauxhall and Volvo offer British buyers two-pedal diesel cars though more are coming.

Motor manufacturers and importers with diesels in their ranges had expected government action to promote their use at the time of the last Budget in March.

The parliamentary all-party Motor Industry Group, convinced of the diesel car's environmental and conservation merits, had been bending the chancellor's ear. Only a week or two before the Budget was submitted to the House of Commons he had asked the Group to prepare a paper on diesel car benefits. Three tax changes that could have been made were:

- Increasing the tax differential between diesel fuel and petrol.
- Allowing company diesel cars of under 2.5-litres capacity to go in the under 2-litre tax band.
- Abolishing the 10 per cent Special Car Tax on diesel engined cars only.

In the event, it was not to be but diesel car proponents will be very surprised, not to say disappointed, if they draw a blank again when the 1992 Budget is laid before parliament, regardless which party is in power.

Factors favouring the wider use of diesel – and particularly executive class diesel – cars in Britain include EC policy on making their fuel relatively cheaper as time goes on and the hard look companies are taking at providing employees with cars.

In Britain, the tax difference between diesel and unleaded petrol is under 4 per cent. In Belgium, Denmark, France, Germany, Holland, Italy, Portugal and Spain it is anything from 32 to 50 per cent cheaper. By itself, this is a powerful incentive to motorists who have to buy their own fuel to choose to run diesel cars.

When coupled with the diesel car's 20-30 per cent lower fuel consumption, it makes their case seem overwhelming. And especially so to business motorists who are paid mileage for using their own vehicles instead of being given company cars as part of their employment package.

It cannot be said too often that although diesel cars can never be quite as refined and quiet running as those with petrol engines, some of today's crop get very near it. On motorways especially, it takes a sensitive ear to detect whether, say, a Mercedes-Benz 300 is diesel or petrol engined.

(With engines fully encapsulated in sound damping material, Mercedes diesel cars are an industry benchmark. Even when cold started they mutter rather than clatter for the first minute or two).

Turbocharging is particularly suitable for diesel engines. It reduces the noise of combustion, makes exhaust emissions even cleaner and provides the kind of power for acceleration and overtaking that petrol car users have come to expect.

In the under 2-litre cylinder, less than £19,250 list price, category there are some excellent turbo-diesels to be had. Among them are the Citroën BX (also available with automatic transmission), Peugeot 405 and Rover 200/400 saloons and hatchbacks. All are powered by the same 1.8-litre PSA-built diesel engine widely acknowledged to be at the top of its class for refinement.

When their environmental friendliness is considered, it seems unfair that frugal diesels of just over 2-litres cylinder capacity are put in a higher tax band than smaller engined though thirstier petrol cars.

For example, a Citroën XM turbo-diesel with an advanced 12-valve engine of just below 2.1-litres capacity carries an annual tax penalty to the user of £1,600. Yet its urban fuel consumption is 33.2 mpg against the 22.6 mpg of the comparable 2-litre petrol engined XM with a catalyser.

An incidental advantage of executive diesels is their long refuelling range. Recently I drove at normal speeds a Citroën XM turbo-diesel from Wales to Dover, then from Calais to Paris and on toward Brittany. Only at Le Mans, 700 miles (1,126 km) later, did the warning light show the 17 gallon (77 litre) tank needed refilling. The consumption was 45.75 mpg sensationally good by large petrol-engined car standards but par for the course for a diesel as efficient as the XM.

Many executive-class diesel cars that are big sellers on mainland Europe are unknown in Britain. Examples are the Alfa Romeo 164 and Lancia Thema, both with the same 2.5-litre turbocharged engine used in the Rover 825td, and the Fiat Croma, powered by an exceptionally frugal direct-injection 2.5-litre turbo-diesel.

In Britain nearly all the growth is in the lower reaches of the market

A new Audi 100 with a direct-injection turbo-diesel will be in Britain by the autumn. Even BMW, which for years has resisted requests to bring its silky 6-cylinder diesel cars into Britain, will start importing them in 1992.

By then, it seems possible that tax changes and other incentives will have persuaded many executives either to choose diesel company cars or elect to run their own on a mileage basis. Either way, the environment can only benefit.

Stuart Marshall

■DEPRECIATION: still more pain to come

Lower mileage remains the key to value retention

THE bad news is that some cars are losing 60 per cent and more of their value in the first two years. Worse news for companies running in-house fleets is that the models that lose most are often executive class cars. Gloomier news still is that according to one industry executive "there is still more pain to come".

Car value comparisons (£)						
	Value in May 1990 of May 1988 car with 30,000 miles			Value in May 1991 of May 1989 car with 30,000 miles		
	Cost new	Trade value	Per cent	Cost new	Trade value	Per cent
Rover 827SI 4-door auto	16,947	6,825	40.3	19,497	6,725	34.5
Ford Granada 2.9I Ghia 5-door	15,784	7,500	47.5	17,740	7,275	41.0
Mercedes-Benz 190E auto	17,148	11,950	69.7	17,744	11,950	67.2
BMW 525iSE auto	21,889	14,800	67.6	22,779	14,850	65.2

At the beginning of this year, the residual values of cars had sustained months of tumbling prices. They had reached the point at which Glass's Guide, one of the two trade used value bibles, said values were at a historic all-time low.

Happily, in the last couple of months, prices have firmed slightly for most cars – but not all. According to Mr Geoff Becque, director of Leasecontracts: "High mileage executive cars remain very difficult to sell and so their used values are right down. No-one in the motor trade wants to know about, for example, a BMW 7-Series with 70,000 miles on the clock though low mileage examples do quite well. Mileage is the key to executive class values."

All of which is of little comfort to the company whose drivers run around in expensive cars and in the course of their business clock up high mileages. Even if their cars do not clock up high mileages, the used values after a year or two are still pretty low in many cases. "Up to about a month ago, the executive class car suffered a savage rate of depreciation", said Mr Leslie Allen, director at Glass's Guide. "The cars are now being perceived as better value and so I believe that prices have now bottomed out. However, I do not expect any improvement in used prices; they will be static for the rest of the year, but because new car prices continue to rise, the differential between new and used prices will continue to widen."

So what are the reasons for the fall in used executive car values?

According to Mr Allen, one of the main considerations within companies is keeping costs down to a minimum at a time when trading conditions are difficult. "In particular, companies are looking very critically at running costs so where possible they might want to substitute large six-cylinder cars for more economical four-cylinder units; and since many manufacturers are now offering 2-litre models with exactly the same specification and level of creature comfort as drivers are used to in their larger-engined cars, this substitution doesn't look unreasonable.

"But on the other hand, when they come to try to sell those larger engined cars, private buyers in the used car market willing to buy bigger engined cars are increasingly hard to find because they need to look critically at their own running costs." And if demand is low, the laws of supply and demand conspire to reduce values.

The CAP Black Book – the trade's other bible of used values – can offer no more consolation. Mr Mark Cowley says that prices have been depressed by a weak economy, uncertain demand and business failures. And even when a recovery – which he expects to start towards the end of the year – gets under way, demand for used cars will grow only very slowly. "The outlook is fairly bleak except for niche models," he says.

Happily, in the last couple of months, prices have firmed slightly for most cars

He points to the Land Rover Discovery, Japanese sports models, the new Mercedes-Benz S-Class and the BMW 525i as examples of models that are likely to retain their values better than average.

What most observers agree, however, is that demand for used Rover 827, Ford Granada 2.9, and Vauxhall Carlton/Senator models is unlikely to improve. Figures produced by Mr Becque indicate that they are continuing to fall at a faster rate than those for the more desirable Mercedes-Benz and BMW models.

"If you look at the executive and luxury market overall, there will always be people prepared to buy at the very top of the market. There will always be those who want a Ferrari, a Bentley or a Rolls-Royce, so values of these models are not too badly affected," he says.

"The models that have a good reputation for build quality and reliability also tend to do reasonably well, so long as the mileages are not too high."

"However, lower down the market place, individuals are becoming far more conscious of the various tax bands that affect their own deductions from salary. That is why cars such as the Rover 800, Ford Granada and Vauxhall Carton/Senator are suffering. There will be a major realignment in the next five years or so. We are hearing stories that GM/Vauxhall will not be replacing the Senator with a new model but will instead leave that sector to Saab.

"In the same way it is quite possible that Ford will decide the volume is no longer there to make a Granada replacement viable; it would leave Jaguar to look after the top of the executive market for it, while increasing the specification of its smaller, Sierra class cars to supply the needs of middle executives."

Price buster: a BMW 7-Series with low mileage will do quite well on the second-hand market

There is another realignment in the market place that could come. Increasing numbers of companies are actively considering offering employees nearly new cars instead of new ones. At the same time, many leasing companies are offering six or nine months-old vehicles instead of new ones.

With low mileages, they drive and look like showroom cars and with the advent of the relatively cheap personalised number plates there is no reason why the neighbours should ever know. The difference is that they may be many thousands of pounds cheaper to buy. The only irony would be that if enough people wanted to buy nearly new cars, the prices would inevitably rise.

Martin Derrick

FINANCIAL TIMES
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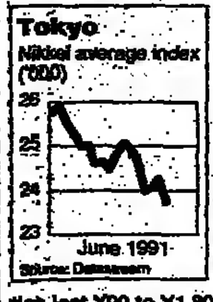
FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday June 25 1991

INSIDE

Nikkei falls after news of resignations



Share prices in Tokyo fell 2.1 per cent yesterday on the news that the presidents of two leading Japanese brokerages had resigned, following last week's admissions of investor compensation and dealings with a crime syndicate. The Nikkei average fell 509.62 to 23,765.48 and brokerage shares in particular plummeted — Nomura Securities lost Y90 to Y1,800 and Nikko fell Y58 to Y952. Page 44

Iberia to make Venezuelan bid

Iberia, Spain's loss-making national airline, will today submit a bid to buy up to 50 per cent of *Venezolana Internacional de Aviacion* (Viasa), Venezuela's national carrier. If successful, Iberia will take control of its fifth Latin American airline in six months. Iberia has just announced a loss of Pta13.9bn ($124.5m) last year. Page 24

Glimpse of Soviet gold

The secrecy surrounding the Soviet Union's gold reserves was lifted slightly yesterday when a senior official revealed that the Central Bank had gold worth $4.4bn in its official reserves. Mr Alexandre Doumnov, deputy managing director of the international monetary and economic department of the State Bank of the USSR (Gosbank), told the Financial Times Gold Conference that the reserves totalled 374.5 tonnes but gave no hint about total gold stocks. Ken Gooding reports. Page 32

Back from the brink

The Australian regions' biggest food maker, Goodman Fielder Wattie (GFW) has been to hell and back in the past few years. Its return from the brink can be traced to about a year ago when the chairman, Mr Pat Goodman (left), appointed former Elders director, Mr Michael Nugent, to the managing director's job. Bruce Jacques reports on how personalities dominated the company's recent history. Page 28

Renewed attempt at a sale

Capital & Counties, the UK property group, is trying again to sell its stake in Australia's Capcount Property Trust to Burwill Holdings, the Hong Kong-based steel and minerals trading house. The group was denied approval last month by unit holders to sell the 53.7 per cent holding. Last night, it told the Australian Stock Exchange that it was negotiating to sell Burwill a 19.9 per cent holding at 77 cents a unit, or a total of A$46.4m (US$35.2m). Page 31

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM) — PARIS (FFr) — NEW YORK ($) — TOKYO (Yen)

New York prices as at 12.30pm.

LONDON (Pence)

[illegible]	[illegible]

Carrefour to pay FFr5bn for rival

By George Graham in Paris

CARREFOUR, the leading French hypermarket group, is to pay up to FFr5.22bn ($859m) to take control of rival retailer Euromarché.

The company announced yesterday that it had agreed to buy both Viniprix, a holding company which owns 53 per cent of Euromarché, and Euromarché itself.

The deal is the latest and largest move towards greater concentration in the French retailing sector.

Many smaller supermarket and hypermarket chains have already been absorbed, such as La Ruche Méridionale, acquired by Casino, and Genty-Cathiard, taken over by Rallye. Others have had to file for bankruptcy, such as Codec, since taken over by Promodès, or Montlaur, picked up by Carrefour in March for FFr1bn.

"We were expecting the big players to move in on the remaining small groups; now we see that they are eating up the other big groups," said Ms Caroline Olchanski, analyst at brokers Dupont-Denant.

Mr Michel Bon, Carrefour's chairman, said that the purchase represented a "unique opportunity to increase our list of stores and our position in France".

The acquisition will increase the number of Carrefour's hypermarkets from 80 to around 130, although Euromarché stores are smaller than Carrefour's.

Carrefour will pay FFr2.4bn or FFr2,700 a share to the principal shareholders of Viniprix: Lazard Frères, the investment bank, 38 per cent; members of the founding family, 11 per cent; and Au Printemps, the retailing group, 34 per cent. It will also pay Printemps FFr1.25bn or FFr4,470 a share for the 25 per cent stake it holds directly in Euromarché.

The same terms will be offered to the remaining minority shareholders in both companies, adding up to FFr1.6bn on top of the cost.

Mr Bon said Carrefour's balance sheet showed FFr3bn of debt to FFr10bn of equity, leaving it with considerable leeway to finance the acquisition by debt.

He warned that profits might decline under the impact of the Euromarché acquisition by some 10 per cent this year, but then he expected them to improve by at least 20 per cent a year to reduce debt to less than 50 per cent of equity by 1994.

Carrefour has been one of the most consistently profitable companies in France, with net earnings last year of FFr1.35bn on turnover of FFr76bn.

Euromarché, on the other hand, barely broke even last year after heavy losses in 1989 with net earnings of FFr5.5m on turnover of FFr25.3bn.

Fair price, Page 25

Brazilian group buys British oil rig maker

By Andrew Taylor in London

ODEBRECHT, the construction, process plant, mining and engineering group and one of Brazil's largest companies, yesterday announced plans to break into Britain's renascent offshore oil and gas fabrication industry.

Técnica Nacional de Engenharia (Tenenge), an Odebrecht subsidiary, has agreed to acquire SLP Engineering, a manufacturer of modules, decks and other structures for the North Sea, from George Wimpey, the UK construction and property group.

Tenenge, which has been advised by N. M. Rothschild, has two yards in Brazil where it has worked on offshore projects accounting for more than one third of the country's oil production of 600,000 barrels a day. It has also provided offshore facilities for oil and gas producers in Chile and last year acquired a yard for offshore work at Setúbal in Portugal.

The company, a large South American process plant contractor, plans to use any spare capacity at SLP's yards in Lowestoft, Suffolk and on Teesside to bid for process plant contracts in the UK and in continental Europe.

It recently won a joint venture contract with Bechtel, the US engineering group, for a preliminary study for a refinery at Volgograd in the Soviet Union.

SLP's purchase price is thought to be almost £10m ($16.80m.) It had an estimated turnover of £37.2m last year and has about £130m of orders outstanding.

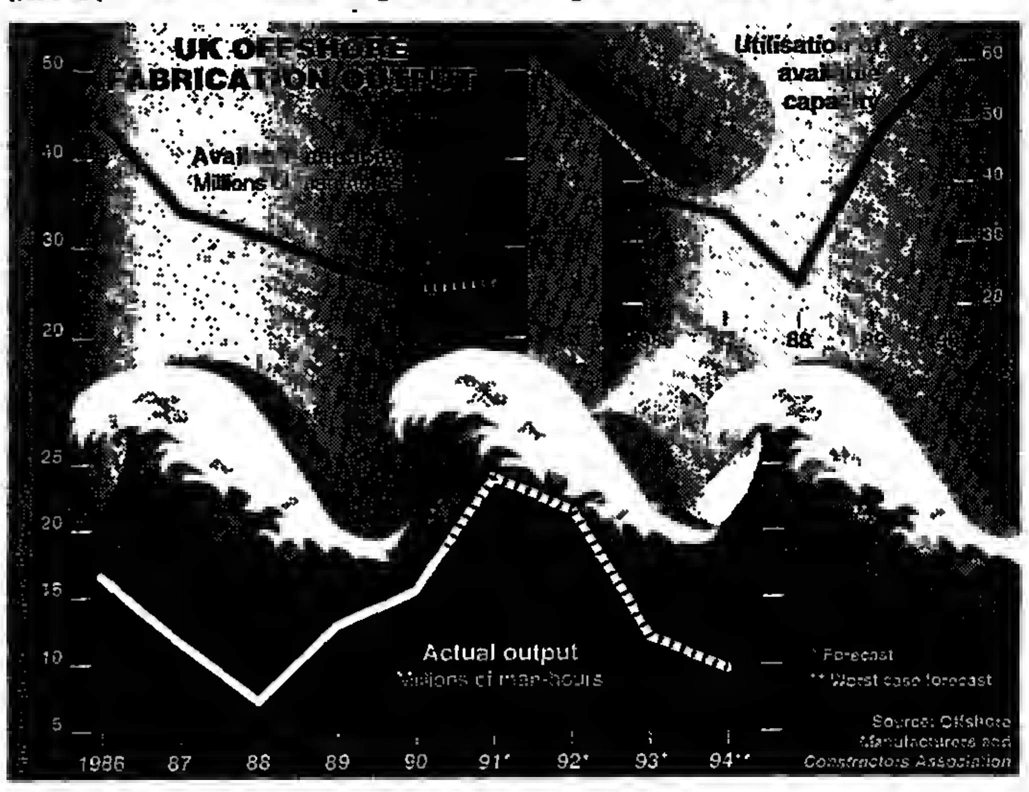
Wimpey, which needs to raise money to reduce borrowings and to replenish its housing landbank, also holds a 50 per cent stake in Highland Fabricators, a UK offshore company it owns jointly with Brown & Root, the US engineering group. The company said yesterday it would consider an offer for its stake in Highland. SLP and Highland are two of seven large UK fabricators left after the offshore industry collapsed in the mid-1980s.

Construction of North Sea oil and gas rigs has recovered sharply during the past 18 months but is forecast to decline again next year and in 1993.

Last week, Davy, the UK engineering group, said it would sell all or parts of its businesses after losing £114m on the troubled conversion of an oil rig.

Descending from a high platform

British oil and gas fabricators face leaner times, writes **Andrew Taylor**



STORM clouds are gathering above Britain's offshore oil and gas fabricators, currently enjoying their best trading conditions since the early 1980s.

Investment in North Sea oil and gas production platforms has risen sharply during the past 18 months. British yards as a result are bristling with work as they have rushed to take advantage of the upturn.

Turnover of the seven largest UK fabricators is expected to top £1bn ($1.63bn) this year.

The improvement, however, is not expected to last. The number of large new projects proposed by North Sea oil and gas producers is diminishing. Fabricators say output at British yards is expected to fall sharply from the middle of 1992.

The Offshore Manufacturers and Constructors Association (OMCA), which represents the seven largest UK fabricators, forecast on Friday that the number of man-hours used by the industry would fall from 24.02m this year to 21.45m in 1992 and 13.1m in 1993. This compares with an annual capacity of 26.1m man-hours.

On this basis British yards will be operating at less than half their annual capacity in two years.

Mr Syd Fudge, chairman of OMCA and managing director of Trafalgar House Offshore Structures, the largest UK fabricator, says the industry is facing its most testing time since the mid-1980s.

During that period a number of companies heavily involved in offshore work pulled out of the industry as the price of Brent crude, the benchmark for North Sea oil prices, fell to below $9 a barrel in July 1986. Brent crude is currently selling at more than $18 a barrel.

Many yards closed and others were acquired by the seven remaining large producers: Redpath Offshore and BGC, both owned by Trafalgar House; McDermott, owned by the US engineering group of the same name; Highland Fabricators, a joint venture between Brown & Root of the US and Wimpey of the UK; UIE owned by Bouygues, the large French construction group; and SLP, which yesterday was acquired from Wimpey by Tenenge, a Brazilian offshore fabricator.

As a result of rationalisation and closures, the capacity of UK yards, equivalent to 44.8m man-hours in 1986, was reduced by more than 40 per cent, according to OMCA.

The problems of UK fabricators have been compounded by overseas yards, mainly from continental Europe but also from further afield, trying to take advantage of the resurgence in North Sea work by undercutting British prices.

The most extreme example of this was the award by BP of a contract to build the jacket for its Forties Riser platform to Hyundai which plans to tow the completed structure from its yard in Korea to the North Sea.

OMCA estimates that between 10 and 15 per cent of the order book for the UK section of the North Sea has gone to overseas yards, compared to virtually nothing 10 years ago. It complains that some of these yards are state-controlled, or have large government stakes, and receive subsidies enabling them to undercut British prices.

Hyundai's price for the Forties Riser contract was reported by one fabricator to have been a fifth lower than the next lowest bid; another foreign yard which itself had bid substantially lower than the British-based competition.

Further rationalisation, closures and mothballing of yards would appear to be on the cards unless alternative work can be found to keep companies busy.

Mr Fudge, however, says there are several reasons why the downturn expected in the mid-1990s will be less painful than the collapse in orders in the mid-1980s:

● The fall in demand for new production facilities has not been caused, this time, by the drop in oil prices but rather because the development of North Sea fields has reached the point at which repair and maintenance of existing structures is needed more than new rigs.

● Producers are still investing but are tending to require smaller facilities which can hook up to existing larger platforms. Yards, by switching to repair, maintenance and other types of work, will be able to take up some of their spare capacity.

● Fabricators may also widen their services to provide a "cradle to the grave" capability including financing, designing, constructing and operating rigs on behalf of producers. By offering to share some of the risk fabricators may encourage a higher level of investment.

● Companies may also supplement workloads by using yards for other purposes. Tenenge for example has a substantial process plant business which it operates alongside its offshore business in its two yards in Brazil. It intends to use SLP to bid for process plant contracts in the UK and continental Europe.

● Export of components and management through joint ventures would also provide alternative sources of income. British-based yards for example have recently bid for work off Newfoundland.

Notwithstanding the Hyundai contract, exporting large rigs great distances, is a risky business. Fabricators say one rig travelling from Britain to South America still lies where it sank in the 1970s off the coast of Hartlepool near Teesside. Tenenge yesterday was hoping this latest Brazilian venture in the UK would be more successful.

IBM forms alliance with Lotus to market software

By Louise Kehoe in New York

INTERNATIONAL Business Machines has formed a strategic software alliance with Lotus Development, one of the leading publishers of personal computer software, under which IBM will market Lotus programs for electronic mail and local area network application.

The partnership "is one of the most significant formed by IBM to date," said Mr Jim Cannavino, IBM senior vice-president and general manager of the company's personal computer operations.

IBM is adopting the Lotus groupware program "Notes" which enables personal computer users linked to a local area network to share files and data interactively.

IBM will incorporate elements of the program into a new version of OS/2, its advanced personal computer operating system.

IBM will also market Lotus's "ccMail" electronic mail program and has discontinued an arrangement under which it has marketed a competing program from Microsoft.

IBM executives said the company would incorporate Notes and ccMail into its "Office Vision" suite of office automation programs.

The IBM-Lotus alliance marks another move by IBM to reduce its dependence on Microsoft for personal computer system software. IBM's personal computer strategy is based on OS/2, which it co-developed with Microsoft.

Microsoft is emphasising its "Windows" user interface, combined with the latest upgrade of its widely-used MS-DOS rather than OS/2.

The agreement between IBM and Lotus also represents an important breakthrough for Lotus, giving the company a major opportunity to expand sales of local area network software applications.

Lotus is a leader in the market for spreadsheet programs, with its popular 1-2-3 programs, but it has struggled to make its mark in other segments of the software market.

By next year, 60 per cent of all personal computers will be linked to local area networks, according to IBM. This will create an expanding market for "groupware" applications, company executives said.

Pilkington bidder may face £250m buy-back

By Maggie Urry in London

A SUCCESSFUL bidder for Pilkington, the UK glass maker, could be required to buy back shares in subsidiaries for £250m ($407.5). The potential "poison pill" is revealed in the accounts for the year to end-March, published yesterday.

Notes in the accounts show that on a change of control of Pilkington, Nippon Sheet Glass, the Japanese glass group, could require Pilkington to buy back NSG's 20 per cent stake in Libbey-Owens-Ford, Pilkington's US subsidiary, for $230m.

NSG paid $230m for the stake in March 1990, but LOF's profits have since been hit by the US recession. The put option was revealed in the 1989-90 accounts, but the price was not specified.

The latest accounts also show that preference shareholders of Pilkington Deutschland, the group's German subsidiary, could require Pilkington to buy back the shares for DM320m ($177.7m) if the company changed hands. These shares, issued in 1989, are largely held by German banks. The put option was oot shown in the previous accounts.

Mr Andrew Robb, finance director, said the two options were not poison pills but were included in terms agreed when the shares were sold.

Pilkington has been subject to takeover speculation since a £1.2bn offer from BTR, the industrial group, was withdrawn in January 1987. The speculation intensified after BTR increased its stake in Pilkington to 4.2 per cent last December. The group's shares peaked at 207p in April, but rumours have since subsided and the shares closed yesterday at 162p, down 2p on the day, valuing the company at £1.2bn.

Directors received a 12½ per cent pay rise in April last year, the report shows. Mr Robb said this was in line with the increase paid to managers in the UK and was based on the previous year's profits. He said in April this year the pay rise was "lower than the going rate of inflation".

No bonuses were paid to directors in the past two years, when pre-tax profits fell from £325.2m in 1988-89, to £314.3m in 1989-90 and £151.6m in 1990-91. Sir Antony Pilkington, the chairman, received £312,500 last year, up from £277,400 excluding pension provisions.

Since March 1987, shortly after the BTR bid lapsed, earnings per share fell on an indexed basis from 100 to 35.2, while the UK retail price index rose to 130.3. Dividends per share have beaten inflation, rising to 143.8.

INTERNATIONAL COMPANIES AND FINANCE

Iberia spreads its wings over Latin America

Peter Bruce reports on the Spanish carrier's controversial expansion plans

IBERIA, Spain's lossmaking national airline, plans today to add another piece to a grand and controversial design to become one of the world's great carriers.

It will submit a bid, in competition with KLM, the Dutch airline, to buy up to 50 per cent of Venezolana Internacional de Aviacion (Viasa), Venezuela's national carrier, making it the fifth Latin American airline Iberia has taken control of, or has tried to, in the past six months.

It has been a strange process. Iberia has just announced it made a loss of Pta13.9bn ($123m) last year and that was only after receiving a credit of Pta12bn from its owners, the Instituto Nacional de Industria (INI), the state industrial holding company.

Mr Miguel Aguilo, Iberia's new president, said that because of the continued effects of the Gulf war, this year's results "will be even worse. The worst of the airline industry's down cycle has only just started."

If the Venezuelans are looking for a financially strong manager at Viasa, they may opt for KLM, but Iberia believes it has an edge. "Our cultural, economic and financial ties with Latin America are very strong," says Mr Aguilo.

"It is a case of the shoemaker sticking to his last. We want to consolidate ourselves in a market in which we will be the biggest European investor."

Spanish companies were never as badly damaged by the Latin American debt crisis as the Americans and other Europeans. Largely, that was because Spain under Franco had made very little effort in foreign investment anywhere. Now, as the continent begins to reorder its economies, the Spanish public sector is beginning to return to South America with a vengeance.

Telefonica has bought operating companies in Argentina and Chile and even the Spanish railway monopoly, Renfe – $6bn in debt – is thinking about buying into Latin American railway privatisations.

Nevertheless, for an airline in trouble, Iberia has thrown itself into probably its most expansive programme in its history. Apart from the bid for Aviasa:

● It has bought, through a mixture of cash and debt swaps, 30 per cent of Aerolineas Argentinas, the Argentine national carrier, for about $500m. One more payment has to be made which the company is currently negotiating.

● It has 35 per cent of a private Chilean carrier, Ladeco.

● It wants to buy the 30 per cent stake Scandinavia's SAS has in the main Chilean carrier, LAN-Chile. It is trying to buy management control of the Dominican carrier, Dominicana de Aviacion.

Iberia has lost about 8 per cent of its global market share in the past 10 years, and the new effort to buy back market share is a reflection of its concern that when the European Community further liberalises air transport in 1993 it will also come under attack at home.

Mr Aguilo concedes Iberia is weak internationally, but both he and independent analysts believe the airline has little option but to try to make itself the dominant European carrier to South America, even if traffic growth prospects are modest.

The internationalisation effort has also been boosted by a hard fought agreement with the US last month. The Spanish were blocking plans by three US carriers to fly new routes to Madrid and Barcelona until Washington met some of Iberia's demands. To their astonishment, the ploy worked.

As a result, Iberia says it is going to be able to build a Caribbean and Central American hub at Miami. Basically, the US agreed to allow Iberia a "change of gate" - the ability to transfer passengers to different aircraft, which would be based permanently in Miami.

Financing this expansion will bury any medium-term hopes the government once entertained of privatising Iberia. The Madrid stock market requires a company to have made profits for three successive years before its stock is floated.

Lately, senior government officials have begun to argue that the airline's expansion is specifically aimed at making it sufficiently strong to be able to play a leading role should a much-discussed wave of mergers between large European airlines ever get under way.

But such thinking is not that widely spread. Senior Iberia directors say they are not even considering privatisation or merging with other airlines.

Iberia still has to spend some $4bn on replacing its ageing fleet in the next six years. The government, perhaps aware it might be creating a money-devouring monster, has just refused to take advantage of an EC "subsidy window" to make a one-off payment to Iberia to compensate for the fall in income during the Gulf war. Iberia had been looking for Pta30bn, but has been told to get it from INI instead.

INI has a penchant for grand plans and Iberia should have little trouble getting its money.

IBERIA, which is negotiating with SAS to buy its 30 per cent stake in LAN-Chile, may find the move blocked by the country's monopolies commission, writes Leslie Crawford in Santiago.

Chile's monopolies commission may take action because in April Iberia acquired a 35 per cent holding in Ladeco, LAN-Chile's domestic rival, for $10.6m. The commission has stopped investors building up controlling stakes in both airlines.

SAS has made no secret of its wish to sell its LAN-Chile holding which it acquired in early 1990 for about $30m.

The Chilean carrier lost $8.4m last year as a result of its cut-throat competition with Ladeco and the rise in fuel costs following Iraq's invasion of Kuwait.

SAS took over the management of LAN-Chile in October, when the Chilean airline was close to bankruptcy.

The airline is retiring half of its fleet of 14 aircraft, shedding staff and abandoning some of its routes. A planned $30m capital increase to shore up LAN-Chile's finances has also been delayed.

Tandy to cut costs by $50m

TANDY, the US computer retail group, is planning to cut annual operating costs by $50m, and has warned that its fourth-quarter earnings, before unusual items, could be "less than half" of the 72 cents per share reported a year ago, Reuter reports.

It added that it would take a charge of $13m, or 12 cents a share, in the fourth quarter, ending June 31, to implement the strategic measures.

Tandy said its Radio Shack Computer Centre operations were being restructured to a non-retail sales office format and removing the emphasis on retail sales at the Computer Centres would produce significant savings.

The company also said it was opening its first European manufacturing and repair centre in Scotland, which should improve product margin and cut operating costs.

While Tandy is phasing out retail operations at its computer centres, it said it planned to expand retail operations through its new Computer City SuperCenter chain. It planned to open 50 new McDuff and Video Concepts stores.

It added that it had adopted new accounting principles for extended warranty and service contracts and has restated its fiscal 1991 earnings.

Tandy's first and second-quarter earnings were restated to 50 cents and $1.26 per share from 65 cents and $1.28, respectively.

Wachovia extends its operations

By Martin Dickson in New York

WACHOVIA Corporation, one of the leading banks in the US south-east, yesterday greatly extended its geographical reach with an agreement to buy South Carolina National, the oldest and largest bank in South Carolina, in a stock-swap deal worth about $830m.

Wachovia is a conservative bank whose careful credit policies have made it a Wall Street favourite and one of the strongest US banks in terms of profits and asset quality.

It expanded six years ago from its North Carolina base by the acquisition of First Atlanta Corporation.

The takeover of South Carolina National will fulfil its stated ambition of growing into contiguous states.

South Carolina National, with $7.1bn of assets and 164 offices is considered a strong bank with 26.6 per cent of the state's bank deposits.

Wachovia, which used to be known as First Wachovia, has $25.6bn of assets and 365 full service offices.

The bank will offer 0.675 of its shares for every share of South Carolina National, which has 23.5m of common stock outstanding.

Wachovia maintained that the deal would be non-dilutive. The two sides hope to complete the merger by the end of the year.

● Amev, the Dutch insurance group, has established a sponsored American Depositary Receipt facility, which will trade over the counter, Reuter reports. Morgan Guaranty Trust will act as the depository for the ADRs.

Eljer agrees to meet Jacuzzi president

By Karen Zagor in New York

ELJER Industries, the Texas-based maker of plumbing, heating and ventilation equipment which is the reluctant target of a $20-a-share takeover bid from Jacuzzi, the whirlpool bath maker owned by Britain's Hanson group, has agreed to meet Mr Roy Jacuzzi, president of Jacuzzi, to discuss the proposed acquisition.

Shares in Eljer put on $¼ to $15¼ at mid-session yesterday. The stock has fallen steeply, from about $23 at the beginning of the month since Eljer said it would "defer" considering the Jacuzzi offer.

In May, Jacuzzi said it was willing to proceed quickly with its cash offer if Eljer would lift its "poison pill" provisions which are triggered when any investor takes a holding of more than 10 per cent.

The Jacuzzi offer is contingent on acceptance by holders of at least 70 per cent of Eljer's outstanding shares. The deal would value Eljer at about $145m.

Last week, Eljer revealed that a US district court had decided against Eljer in its suit against insurers over insurance coverage for a Qest plumbing system which was made and sold by US Brass, an Eljer subsidiary. About 5 per cent of the systems developed leaks.

Eljer, which is appealing against the decision, said its consolidated balance sheet included a receivable of $12.5m from its insurers for past Qest claims. Depending on the outcome of the appeal, US Brass may have to reimburse insurers for claims which have been paid by the insurers.

Eljer said that, if the decision were upheld on appeal it would have a material affect on its financial position.

Mr Jacuzzi said that "in light of the company's announcement [on June 18], we will need to learn more about the court decision, its potential effects and how it might impact our proposal."

Noranda transfers assets

By Robert Gibbens in Montreal

NORANDA, the Canadian resources group, is putting all its gold mining assets into a 51 per cent-owned subsidiary, Hemlo Gold Mines, in exchange for C$80m (US$70m) in Hemlo shares and $10m in royalties.

Hemlo operates the Golden Giant gold mine in northern Ontario, the country's second biggest producer, but output is gradually declining. The deal puts production of about 200,000oz a year into Hemlo, giving it annual capacity of well over 500,000oz.

Among the gold assets transferred are Noranda's interest in two advanced exploration properties in northern Ontario.

● Sherritt Gordon, a western Canada nickel refiner and fertiliser producer, is offering C$82m in stock for Canadian Northwest Energy, a natural gas producer.

INTERNATIONAL COMPANIES AND FINANCE

Norwegian food groups poised to tie up merger deal

By Karen Fossli in Oslo

ORKLA BORREGAARD and Nora Industrier, the Norwegian food and drinks companies, are to merge and begin operating as a joint company from the start of next year. Last January the companies announced that they were interested in future co-operation but discussions appeared to have stalled over what form this co-operation might take.

The terms of the merger have not been finalised but a share swap on the basis of 10 Nora shares for 11 shares in Orkla has been agreed as the foundation of the deal. In addition, Nora's shareholders will receive a cash compensation of NKr12 a share for restricted A shares, NKr47.50a share for free A shares, and NKr8.25 a share for B shares. The aggregate cash payment for these shares is NKr282.5m ($40.2m).

Directors are still discussing how to unwind the interlocking shareholding between the companies.

At the weekend Orkla and Nora finally agreed to the main issues of merging but have yet to name the new company. The merged company will become one of Norway's biggest with annual sales of NKr15.5 billion and more than 14,000 employees.

Aggregate pre-tax profit of the two in 1990 was in excess of NKr1bn and currently they have a combined market capitalisation of NKr10bn.

Orkla and Nora said the objective of the merger was to create a strong and efficient national entity which would contribute to securing employment and industrial development in Norway.

"An important goal for the group will be to strengthen its position in the face of international competition both at home and abroad, and to establish a broader international base," the groups said in a joint statement. "The group will make an active contribution to continued structural development both within and outside the Nordic region."

The group's main business is to be branded consumer goods with main emphasis on the food and beverage sector where sales currently total NKr10bn. The merged company will also build on its expertise within the chemicals and financial investment area.

Uni Storebrand, the big Norwegian insurer, would become one of the biggest shareholders in the merged company with a 13 per cent shareholding. Uni Storebrand said it was positive towards the merger which must receive approval by Norwegian authorities before it can be consummated.

Pirelli downplays potential impact of executive shuffle

By Haig Simonian in Milan

PIRELLI, the Italian tyres and cables group locked in a battle for control of Continental, its German counterpart, yesterday played down suggestions that the removal of two top executives would improve chances of the merger.

Despite its caution, the share price of Pirelli Spa rose by L29 to L2,000, compared with a 2.08 per cent fall in tha Milan bourse index.

Concluding its annual shareholders' assembly last week, Mr Leopoldo Pirelli announced that Mr Gianbattista De Giorgi was stepping down as managing director of Pirelli Spa, while Mr Ludovico Grandi had resigned as head of Pirelli Tyre Holding (PTH).

Both men have been identified as hardliners in the negotiations now taking place with Continental. According to some analysts, their removal, coming just weeks after the resignation of Mr Horst Urban, Continental's chief executive, may clear the air and improve the chances of a deal taking place.

However, soma analysts have warned that the changes are also part of a wider transformation in the group's top echelons.

Fidelity loses vote on Colonia reshape

By Katharine Campbell in Frankfurt

THE RESTRUCTURING of Colonia, Germany's second largest insurer, was yesterday voted through at the annual meeting, despite objections from Fidelity Investments of the UK.

In an unusual intervention into German corporate governance by a foreign shareholder, Fidelity argued against the formation of a holding company that would effectively allow the insurer to diversify into businesses outside insurance.

While Fidelity voted its 7.8 per cent share of the capital against the motion, a majority "well in excess of 75 per cent" approved the move initiated by Victoire, the French insurance group that owns 55 per cent of Colonia.

During the four-hour meeting, Mr Alistair Blair, corporate finance director of Fidelity, read a statement – in German, as the law prescribes – expressing concern that Colonia might expand into new areas outside its core expertise without due consultation of minority shareholders.

The creation of the holding company merely brings the Cologne-based operation into line with configurations adopted by other large domestic insurers.

It is, for instance, from the beginning of next month setting up a commercial real estate joint venture, folding in property held within the group, but which will also be able to broke deals for third parties.

The latter would not be permitted by the Berlin insurance regulators, but the holding company concept takes non-insurance business outside their writ.

As regards the possibility of entering banking, Colonia said yesterday that no appropriate institution was up for sale.

It added that even if it were, the insurer could probably not afford to buy a bank of a suitable size.

Euromarché lands in Carrefour's basket

George Graham examines the latest shake-up to hit the French hypermarket sector

IN Mr Antoine Bernheim's long and distinguished business career, his spell in charge of the Euromarché retailing group can scarcely be marked down as one of the most glittering successes.

After presiding over a steady decline in Euromarché's fortunes, the 66-year-old Lazard Frères investment banker then became embroiled in a bitter personal squabble with Mr Jean-Jacques Delort, chairman of Au Printemps, Euromarché's other main shareholder.

With yesterday's FFr5.22bn ($850m) deal to sell Euromarché and the Viniprix holding company which controls it to Carrefour, the leading French hypermarket group, Mr Bernheim has at last succeeded in untying himself from the grocer's apron that suited him so ill.

Euromarché was one of the first groups to enter the field of the hypermarket – a peculiarly French contribution to international retailing, combining food retailing with a wide range of toys, clothing, tools and the like on sites of over 5,000 square metres.

The deal will thrust Carrefour into first place in the French hypermarket field, with over 1m sq metres of retailing space, although fewer outlets than the Leclerc franchise group.

Mr Michel Bon, Carrefour's new chairman, however, refuses to consider such rankings. "Wa think the interesting thing is the size of your muscles, not your waist," he quips.

By reinforcing its power in purchasing negotiations, it is also expected to enable Carrefour to boost its operating margins.

"For us, what counts is turnover. When the turnover is there, the margin is there," says Mr Bon, adding that he sees no reason why Euromarché's outlets should not soon be achieving the same sort of margins as Carrefour's.

As the competition in the sector becomes fiercer, more of the smaller retailers are expected to find it difficult to compete against this sort of purchasing muscle, leading, perhaps to further concentration in the years to come.

Mr Bernheim became chairman and chief executive of the Euromarché in 1981, at the request of its founder, but he did not at first take a very active part in its management.

Taking charge in 1985, ha was able to boost earnings considerably for three years.

In 1988, however, net profits fell 30 per cent to FFr159m, and the following year Euromarché recorded a FFr59m net loss.

Last year, the group managed a scant FFr5.5m profit, and many stock market analysts believe it will have returned to loss in the difficult trading conditions of the first half of this year.

Over these last three difficult years, Mr Delort has become increasingly impatient. Overall, his company is the biggest shareholder in Euromarché, with 25 per cent directly and 34.9 per cent of Viniprix, which itself owns 52.9 per cent.

Viniprix, however, is controlled by Lazard with 38.1 per cent, held through Eurafrance and France SA, in partnership with the 11 per cent held by the founding families.

Mr Delort openly criticised Mr Bernheim's management of the business, and at last year's shareholders' meeting voted against his reappointment as chairman.

Criticism, however, is something Mr Bernheim does not accept lightly.

"I will not depart red-faced," he declared.

Negotiating a settlement to this squabble, which has at times appeared positively childish, has not been easy. Analysts believe Printemps was unwilling to put enough monay on the table to buy Euromarché outright, hnt it was difficult for Lazard to seek another buyer because of a pre-emption agreement dating from 1982.

In the end, Mr Bernheim has extracted what most analysts view as a very reasonable price from Carrefour, which will buy out Lazard, Printemps and the founding families from Viniprix for FFr2,700 a share, and Printemps' direct stake in Euromarché for FFr4,470 a share. It will also offer the same terms to other minority shareholders.

For Mr Bon, the price appears well worth paying in a retail market which has seen a fierce movement of concentration over the last two years.

Mr Bon says that there is "almost miraculous" geographic fit between Euromarché's and Carrefour's sites.

But although Euromarché has some of the choicest locations in France – a country which tightly regulates the construction of hypermarkets in order to protect traditional small retailers – it also has many small and unprofitable units.

To underline the importance of the sites in the competitive French market, Carrefour three months ago paid FFr1bn to buy the south-western retailing group Montlaur out of bankruptcy, solely in order to obtain three or four hypermarkets it coveted.

"The sites are worth a lot, and they are something which no-one could recreate today," comments Ms Caroline Olchanski of brokers Dupont-Denant.

GALERIES Lafayette, the French department store group, yesterday won control of rival retailer Nouvelles Galeries when its opponent Devanlay threw in the towel, writes George Graham.

Devanlay, the textiles group controlled by Mr Léon Cligman, has until now controlled Nouvelles Galeries with 47.5 per cent of the voting rights.

But after last minute negotiations over the weekend, had failed to reach an agreement Nouvelles Galeries decided to tender part of its stake to Galeries Lafayette's offer for 66.6 per cent of Nouvelles Galeries' capital.

Devanlay failed yesterday in an attempt to obtain a court order extending tha offer to 100 per cent of Nouvelles Galeries.

All the same, the acquisition of Nouvelles Galeries, which owns a string of regional department stores and controls the BHV Paris department store, will cost Galeries Lafayette dear.

It had already paid FFr800m to Proventus, the Swedish investment group, for a 18 per cent stake which took its holding to 39 per cent and triggered its bid. It expects to have to pay out another FFr1.35bn, even if it is allowed to scale down tenders to keep within the limit of 66.6 per cent.

Devanlay is expected to tender around half of its stake to the offer to recoup some FFr600m, and to sell the remainder on the market as opportunities present themselves.

This could leave it with a cash pile of perhaps FFr1bn to reinvest, just as Au Printemps, one of the other main French retailing groups, will be unleashed with FFr2.2bn of cash from the sale of its holdings in Euromarché.

Southend fails in Frogmore bid

By Richard Gourlay

SOUTHEND Property's hostile bid for Frogmore Estates failed yesterday as the highly-geared UK company announced that its £189m ($238m) predominantly share-for-share offar had won acceptances from only 4.2 per cent of Frogmore's shares.

"We have always known there would be an overwhelming vote either for or against this bid," said Mr Malcolm Dagul, the Southend chairman.

The bid would have created the UK's 11th largest property company and has enlivened a sector that has been particularly hard hit by the recession.

After tha bid lapsed, Southend increased its stake in Frogmore from just below 10 per cent to just over that figure.

Mr Dagul said there were now three shareholders who controlled 40 per cent of the company, while the directors owned only 3 per cent. He added that Southend was not satisfied with Frogmore's management.

"We are still interested in Frogmore," he said. "There is more to play for."

Yesterday's purchase will allow Southend to take certain actions, such as calling for extraordinary general meetings to make board changes.

Earlier this month Southend, which is highly-geared, raised its offer to £139m and added cash and convertible shares to its original all share offer.

Mr Dagul had argued that this would have given Frogmore shareholders a mnch higher return. Frogmore shareholders would have owned 54 per cent of the merged group.

Yesterday Mr Dagul said the bid had probably failed because the offer lacked sufficient cash hut defended his decision to let the bid stand on the merits of the merger.

Portugal launches initial phase of Bonanca sell-off

By Patrick Blum in Lisbon

THE FIRST phase of the privatisation of Companhia de Seguros Bonanca, Portugal's fifth largest insurance company, will taka placa today with the sale of 60 per cent of its capital.

The offer is divided into four tranches. Employees are being offered shares at Es4,000 per share, small investors at Es4,275 per share and Portuguese living abroad at Es4,500 per share. The fourth tranche consists of a block of 1.5m shares at a starting price of Es4,750 per share.

The remaining 40 per cent of the company will stay in state hands for the foreseeable future with the governmant retaining a 15 per cent direct shareholding. Petrogal, the state-owned oil group, and Tabaqueira, the state tobacco company, will each keep 12.5 per cent.

● Tha privatisation of Portline, a shipping company, was completed last Friday with the Es5.75bn ($36m) sale of the government's remaining 80 per cent shareholding to a Portuguese-German consortium.

INTERNATIONAL COMPANIES AND FINANCE

Tobishima debt plan presented to creditors

By Robert Thomson in Tokyo

TOBISHIMA Corporation, the financially troubled Japanese construction company, yesterday presented a dabt restructuring plan to creditors that will aim for a Y540bn ($3.9bn) reduction in its total borrowings of Y950bn.

Tobishima has become a symbol of the msny conservative Japanese companies that were led astray by speculative temptation during the financial boom of the late 1980s. It was caught up in the Y300bn collapse earlier this year of Nanatomi, a property developer and stock speculator.

The company, one of the country's leading contractors, is receiving assistance from its main bank, Fuji Bank, which has assured lenders that there is no danger of Tobishima defaulting, despite the large borrowings.

A Tobishima spokesman said that the company expected that the Y540bn reduction would take three years to complete and would be realised by sales of property totalling Y350bn and securities sales of Y190bn.

He conceded that a sluggish property market could hinder the planned sales, "but we will be making every effort in this direction".

The company joins a growing list of developers now attempting to reduce debts through sales of their property holdings.

Mr Akira Tobishima announced several weeks ago that be would resign as the company's president and be replaced by his 78-year-old father, Mr Hitoshi Tobishima, wbo had relinquished the presidency six years ago to take the largely ceremonial post of chairman.

The announcement by the younger Mr Tobishima followed the collapse of Nanatomi, which had been formed by seven former Tobishima officials.

At the time of Nanatomi's failure, Tobishima had outstanding loans and guarantees to the company totalling Y123.4bn.

Cerebos net earnings fall in spite of strong sales

By Jnyce Quek in Singapore

CEREBOS Pacific, the food, beverage and restaurant group, announced strong sales and profit performances from its Australian, New Zealand and Brand's divisions, but the continued strength of the Singapore dollar depressed the overall results.

Cerebos, the only listed company in the Japanese Suntory group, has changed its financial year-end to match that of its parent. For tbe eight months to March 31, group turnover rose 9 per cent to S$283.4m (US$162.9m) after a S$19.8m translation loss.

Group pre-tax profits improved slightly from S$46.7m to S$47.4m, while an extraordinary loss of S$860,000 for rationalisation in New Zealand and Hong Kong reduced after-tax profits and net earnings per share by 4 per cent each to S$24.9m and 8.3 cents respectively.

Following industry trends, a slowdown in sales performance, conpled with rising operating costs affected the results of the Pizza Hut franchises in Singapore and Malaysia. Also, the Pizzaland business in Hong Kong and Water business in Singapore, both started in 1990, continued to experience higb investment and start-up costs.

The core bnsinesses are expected to perform satisfactorily, with a first-time contribution from the newly acquired Bonlac business, while the restaurants will continue to face difficult trading conditions. However, trading profit is expected to be better than last year.

S Korean corporate debt shows sharp rise

By John Ridding in Seoul

SOUTH Korea's corporate debts have risen by 28 per cent over the past year because of a prolonged slump in the stock market and reduced profitability, according to the Bank of Korea.

In a report released yesterday, the central bank said that aggregate net liability of Korean companies was Won143,684bn ($198bn) at the end of March, a 28.5 per cent increase from the same period last year.

A spokesman for the BOK said the increase reflected the continued decline in the stock market, which lost 23 per cent of its value in 1990 and which has been one of the few Asian markets to fall this year.

He said that reduced profitability, resulting from higher labour and financing costs, was also a factor. Interest rates, which put the marginal cost of borrowing at near 20 per cent, have been further tightened this year as a result of inflationary pressures. As a result, corporate indebtedness has risen still further.

According to the report, the corporate sector has been relnctant to raise funds through the disposal of unused land, despite increasing government pressure to do so. Instead, it has increased its dependence on the banking sector.

The study was based on reports from companies with annual sales of more than Won250m. Financial institutions and non-commercial private organisations were exclnded from the calculations.

Outstanding loans from financial institutions totalled Won278,790bn at the end of March 1991, against total assets of Won135,105bn. Bank loans amonnted to Won52,620bn, up 25.6 per cent from the same period last year. Funds raised through the issue of corporate bonds amounted to Won50,485bn.

Brierley to lift stake in joint venture to 30%

BRIERLEY Investments of New Zealand plans to lift its stake in a property investment company it formed last December with SEA Holdings of Hong Kong from 20 to 30 per cent, AP-DJ reports.

In a statement to the New Zealand stock exchange, Brierley did not reveal financial details of the arrangement, which is conditional on SEA shareholders approving a reduction in the Hong Kong company's stake to 70 per cent from 80 per cent.

The company is to be used for investment in Pacific Rim property, with its portfolio initially planned to consist of Wellington's Telecom House and Hong Kong's China Underwriters Center and associated car parks. Tbose boldings would give the venture a net asset value of NZ$73.4m.

Westpac shares fall 11 cents

SHARES in Australia's largest bank, Westpac Banking Corporation, fell 11 cents to A$4.57 yesterday as the market reacted sharply to the bank's surprise announcement last week that it would inject A$150m (US$115.4m) into its troubled finance arm, AGC. The division was expected to lose A$120m this financial year, writes Mark Westfield in Sydney.

By contrast, the National Australia Bank, which said it would reduce the activities of its lossmaking finance arm, Custom Credit, to a specialist leasing company, was relatively unscathed in yesterday's market, falling just 2 cents.

Sankyo pre-tax profit up 31%

Sankyo, a leading Jspanese pharmacentical maker, announced a 31 per cent jump in consolidated pre-tax profit in the fiscal year to end-March, AP-DJ reports. Net profit rose 67 per cent to Y21.74bn ($156m) from Y13.02bn with sales rising to Y453.14bn from Y425.64bn.

GFW gets back to basics

Bruce Jacques on the Australian group's revival

WHEN the historians pronounce on the corporate boom and bust in Australia during the late 1980s, they may sagely point to a raft of tell-tale signals that rendered seemingly successful companies vulnerable. Perhaps tha central such warning shonid be against companies that become dominated by one man, especially if his name appears on the products.

Any such treatise should not overlook the Australian region's biggest food maker, Goodman Fielder Wattie (GFW), which has been to hell and back in the past few years. Personalities could not be more central to the company's recent history.

Goodman's return from the brink can be traced to almost one year ago, when the chairman, Mr Pat Goodman, finally subjngated his ego and appointed former Elders director Mr Michael Nugent to the managing director's job.

Mr Goodman, who remains non-executive chairman, has since returned to his native New Zealand, several thousand miles away from the GFW head office in Sydney. Mr Nugent's appointment followed a long stint when GFW was lumped with the now largely discredited Australian entrepreneurial sector. The company's share price fell to A$1.19 last year, a far cry from its A$4-plus price tag during the 1980s share boom.

GFW acquired a deal-making flavour from its modern inception last decade as an uneasy coalescence of three leading food groups: Fielder Gillespie, Allied Mills and Wattie. Under the influence of Mr Goodman, who started the business as a two-man bakery in New Zealand, the group embarked on a further procession of deals.

These included a failed takeover attempt on the Australian corporate raider, Industrial Equity, and a A$3.6bn (US$2.77bn) tilt at British food rival, Rank Hovis McDougall, which foundered on referral to the Monopolies and Mergers Commission.

This aggressive behaviour initially buoyed GFW's share price. In the hot-house atmosphere of the mid-1980s, few seemed prepared to analyse the dubious quality of GFW's earnings stream. The company was booking asset sales above the line and equity accounting its then 15 per cent stake in Elders IXL (now Foster's Brewing), whose earnings quality was also found to be flawed.

Mr Pat Goodman: surrendered executive control last year

But the crunch inevitably came with investors' "flight to quality" late last decade. The market was baying for blood and was offered a little of Mr Goodman's. It liked the taste.

With Mr Nugent in control, the GFW share price has jumped more than 60 per cent and the company is again being talked of as a key food group instead of deal-maker.

A modest Mr Nugent is the first to claim there's no magic about his approach. He says its simply back to basics. "The board had already set the company on a course of reducing costs, selling surplus assets and cntting debt before I arrived," he says. "I have just continued the process."

MR Nugent moved to stamp his anthority on the company last month with a detailed strategy statement which is an attempt to change GFW's corporate culture. He is trying to rid GFW of its regional biases, reflecting a group cobbled together from disparate food interests. His method is to reorganise management along product rather than geographic lines.

Any change that deep will take time to work, but Mr Nugent appreciates that a parochial culture will not suit his plan to have GFW rank among the world's leading food groups. He foresees expansion in Europe and Asia lifting the overseas earnings ratio from 30 to 50 per cent.

Meanwhile, Mr Nugent has achieved cost savings of about A$20m a year and is looking for as much again in the next couple of years. Action so far has mainly involved plant closures and mergers. Divestments have already raised more than A$120m and a further A$200m is possible.

GFW's gearing is down from more than 100 per cent to around 75 per cent, and Mr Nugent believes cash flow can support remaining debt of about A$940m. "We'll do better than last year this time," he said, "but we won't yet make the profits we want. Most of the improvement is coming from internal efficiencies because the markets out there are still pretty tough."

Most analysts are predicting only modest growth this year, and December half-year earnings results fell short of an emphatic return to health. Earnings before interest and tax rose 30 per cent to A$140m, but a rising tax bill cut net earnings 12 per cent to A$62m.

The company also faces a cut in full-year dividend unless Mr Nugent wants to pay out about 100 per cent of earnings. The GFW share price stands to benefit from last month's sale of a near 10 per cent stake by Foster's Brewing. The holding, another legacy of Mr Goodman, was overhanging the market.

But at mid-June levels around A$1.70, GFW was still selling well below the A$2.71 a share which had been offered two years ago in a counter-raid by RHM. Shareholders must be wondering why Rank's largesse was so strongly rejected at the time.

INTERNATIONAL CAPITAL MARKETS

French bonds tumble as political tensions mount

By Simon London in London and Karen Zagor in New York

FRENCH government bond prices declined heavily yesterday as the market reacted nervously to domestic political tensions and to the outcome of the G7 meeting in London on Sunday.

The benchmark 8¾ per cent 10-year government bond fell by around ¾ point on the day and closed on a yield of 9.26 per cent, up from 9.16 per cent on Friday.

In addition to the weakness of the French currency on the foreign exchange markets, the national minimum wage was raised by 2.3 per cent, in line with an established formula. Although not unexpected, the move focused attention on the budgetary pressures on the government. A one-day strike by air traffic controllers added to the political gloom.

The 10-year yield spread between the German and French markets has now widened to 90 basis points, from a low of around 40 basis points in May.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	104.7520	-0.169	11.21	11.21	10.59
BELGIUM		10.000	06/00	103.5600	-0.550	9.39	0.26	9.18
CANADA *		9.750	06/01	98.2500	-0.275	10.03	0.91	9.61
DENMARK		0.000	11/00	96.4250	- -	0.24	0.20	9.07
FRANCE	BTAN	9.000	02/96	98.7571	-0.161	9.31	9.22	8.98
	OAT	9.500	01/01	101.5800	-0.440	9.23	9.14	8.97
GERMANY		8.375	06/01	100.2400	-0.160	8.34	8.34	8.33
ITALY		12.500	06/01	98.7800	-0.170	13.25	13.19	12.95
JAPAN	No 110	4.800	06/99	87.3361	-0.077	7.31	7.30	7.08
	No 129	6.400	03/00	97.5126	-0.267	6.86	6.85	6.68
NETHERLANDS		8.500	03/01	98.9300	-0.120	8.66	8.63	8.58
SPAIN		11.900	07/96	99.6500	-0.100	11.99	11.99	11.99
UK GILTS		10.000	11/96	98-03	-04/32	10.47	10.43	10.30
		10.000	02/01	96-17	-04/32	10.56	10.55	10.36
		9.000	10/08	90-07	-04/32	10.21	10.23	10.09
US TREASURY *		8.000	05/01	97-27	+01/32	8.32	8.27	8.09
		8.125	05/21	96-27	+01/32	8.51	8.47	8.30

London closing. *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal. Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

Analysts said that the widening of the yield spread underlined that convergence of European bond yields towards the level of Germany was not a stable process.

The German government bond market itself saw little activity yesterday as dealers remained focused on the foreign exchange markets. The September bund futures contract closed on the London International Financial Futures Exchange at 85.61, against an opening of 85.64. Volume was a subdued 19,000 contracts.

■THE UK government bond market was quiet ahead of tomorrow's auction of £1.5bn of 10-year government stock.

The benchmark 11¾ per cent gilt maturing 2003/2007 closed down ⅛ on the day at 107⅞, for a yield of 10.56 per cent.

Firms active in the gilt market reported mixed advance reaction to the auction. Most reported limited domestic demand for the new stock, other than investors switching out of longer-dated gilts or Eurosterling bonds.

"Yields are too low at current levels to attract much institutional buying, although overseas participation in the auction is an unknown quantity," commented one analyst.

Other than the auction, traders were watching the performance of sterling on the foreign exchange markets, where the it opened weaker but recovered ground.

In the late afternoon, sterling was trading around DM2.98, close to the opening levels, and $1.64, having fallen to $1.6255 in early trading.

■US Treasuries eased slightly yesterday morning in sparse trading as players paused ahead of this week's Treasury auctions of two and five-year notes.

At mid-session, the Treasury's bellwether 30-year bond was ⅛ lower at 96¾, yielding 8.51 per cent. Shorter-dated maturities were off ⅛ to ¼.

The Federal Reserve refrained from operating in the open market, and Fed funds – the rate at which banks lend to each other – traded at 5¾ per cent in the morning.

The bond market received some support from the morning sell-off in equities, with the Dow Jones Industrial average off 36.87 at 2,928.89 at midday.

However, there was little bond market reaction to the G7 weekend meeting, where officials were optimistic about the economic outlook in the US but did not seek immediate action to address the dollar's strength. In the foreign exchange market, the dollar was trading at about Y138.80 and DM1.7840 at mid-session, below its earlier levels in London of Y139.03 and DM 1.7928.

■JAPANESE government bond prices closed lower in Tokyo as dealers saw the dollar remain strong on the foreign exchange markets in the wake of the G7 meeting in London on Sunday.

The benchmark government bond issue No 129 closed the Tokyo day on a yield of 6.86 per cent, against a close of 6.81 per cent on Friday.

Today the government is expected to auction around Y800bn of 10-year paper. Dealers are hoping for a coupon of 6.7 per cent, although the authorities may set a 6.6 per cent coupon.

■THE Hong Kong government has broadened the membership of the advisory committee for the colony's securities watchdog to include stockbrokers, Reuter reports from Hong Kong.

Mr David Nendick, the Secretary for Monetary Affairs, said 12 members have been appointed to the Securities and Futures Commission (SFC) advisory committee, including three executives of securities firms, for a one-year term.

Only former brokers had been members of the committee in the past.

The three brokers are new appointments while the other nine have been re-appointed from the present membership.

The new members are Mr Richard Margolis, managing director of Smith New Court Far East, Mr Wataru Yamaguchi, managing director of Daiwa Securities and Mr Lincoln Yung, deputy managing director of Nanyang Holdings. Of the committee's members, 12 are appointed by the governor, two are SFC executive directors and one is the SFC chairman.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on June 24

[illegible]

* No information available - previous day's price. † Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month) above mean rate for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 24, 1991. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	60.4261	33.8737	43.5307
Albania	(Lek)	10.0703	6.131	3.4369	4.4167
Algeria	(Dinar)	29.4125	17.9071	10.0383	12.9002
[illegible]					
Falkland Is	(Falk £)	1.00	0.6088	0.3412	0.4385
Faroe Is	(Danish Kroner)	11.3050	6.8828	3.8583	4.9583
Fiji Is	(Fiji $)	2.4362	1.4832	0.8314	1.0685
Finland	(Markka)	6.9802	4.2497	2.3823	3.0614
France	(Fr)	9.9525	6.0593	3.3967	4.3651
Fr. Cty/Africa	(CFA Fr)	497.62	302.965	169.836	218.254
Fr. Guiana	(Local Fr)	9.9525	6.0593	3.3967	4.3651
Fr. Pacific Is	(CFP Fr)	178.00	108.371	60.7508	78.0701
Gabon	(CFA Fr)	497.62	302.965	169.836	218.254
Gambia	(Dalasi)	14.2626	8.6834	4.8677	6.2556
Germany	(D-Mark)	2.9300	1.7838	1	1.285
Ghana	(Cedi)	591.89	360.359	202.01	259.601
Gibraltar	(Gib £)	1.00	0.6088	0.3412	0.4385
Greece	(Drachma)	319.92	194.776	109.188	140.316
[illegible]					
Namibia	(S A Rand)	4.7240	2.8761	1.6122	2.0719
Nauru Is	(Australian $)	2.1280	1.2955	0.7262	0.9333
Nepal	(Nepalese Rupee)	54.2896	33.053	18.5288	23.8112
Netherlands	(Guilder)	3.3025	2.0106	1.1271	1.4484
N'nd Antilles	(A/Guilder)	2.9088	1.7709	0.9927	1.2757
New Zealand	(NZ $)	2.8255	1.7202	0.9643	1.2392
Nicaragua	(Gold Cordoba)	8.1250	4.9467	2.773	3.5635
Niger Rep	(CFA Fr)	497.62	302.965	169.836	218.254
Nigeria	(Naira)	16.5750	10.0913	5.6569	7.2697
Norway	(Nor. Krone)	11.4325	6.9604	3.9018	5.0142
Oman	(Rial Omani)	0.6208	0.3779	0.2118	0.2722
Pakistan	(Pak. Rupee)	38.00	23.1354	12.9692	16.6666
Panama	(Balboa)	1.6425	1	0.5605	0.7203
Papua New Guinea	(Kina)	1.5774	0.9603	0.5383	0.6918
[illegible]					
Vanuatu	(Vatu)	179.50	109.285	61.2627	78.728
Vatican	(Lira)	2181.25	1328.01	744.454	956.689
Venezuela	(Bolivar)	90.0913	54.8501	30.7478	39.5137
Vietnam	(Dong)	13406.25	8162.1	4575.51	5879.93
Virgin Is-British	(US $)	1.6425	1	0.5605	0.7203
Virgin Is-US	(US $)	1.6425	1	0.5605	0.7203
Western Samoa	(Tala)	3.8379	2.3366	1.3098	1.6832
Yemen	(Rial)	19.5813	11.9216	6.683	8.5882
Yemen PDR	(Dinar)	0.7490	0.456	0.2556	0.3285
Yugoslavia	(Dinar)	37.9495	23.1047	12.952	16.6446
Zaire Rep	(Zaire)	7549.00	4596.04	2576.45	3310.96
Zambia	(Kwacha)	102.05	62.1308	34.8293	44.7587
Zimbabwe	($)	5.2122	3.1733	1.7789	2.286

Special Drawing Rights June 21, 1991 United Kingdom £0.807225 United States $1.31618 Germany D Mark 2.36820 Japan Yen183.015
European Currency Unit Rates June 24, 1991 United Kingdom £0.699750 United States $1.14234 Germany D Mark 2.05324 Japan Yen159.128

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar;
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday June 24, 1991

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Pool purchase price £/MWh	Final Pool purchase price £/MWh	Final Pool selling price £/MWh
0030	16.04	16.14	16.14
0100	16.04	16.07	16.07
0130	16.04	16.07	16.07
0200	16.04	16.14	16.14
0230	16.04	16.14	16.14
0300	16.04	16.07	16.07
0330	16.04	16.07	16.07
0400	16.04	16.07	16.07
0430	16.04	16.07	16.07
0500	16.04	16.07	16.07
0530	16.04	16.02	16.02
0600	16.01	16.02	16.02
0630	16.26	16.11	16.11
0700	16.48	16.41	16.41
0730	19.12	18.58	19.71
0800	21.23	18.04	20.17
0830	22.28	19.04	23.15
0900	24.47	28.05	29.47
0930	25.67	28.06	29.41
1000	25.92	28.05	29.37
1030	25.71	27.23	28.82
1100	32.80	27.23	28.52
1130	38.28	27.23	28.63
1200	40.99	20.98	22.11
1230	40.35	20.98	22.11
1300	33.10	20.98	22.13
1330	23.34	19.21	20.30
1400	22.30	18.83	19.91
1430	21.87	15.42	10.42
1500	22.12	18.83	19.91
1530	21.73	18.83	19.91
1600	22.45	18.83	19.91
1630	30.22	19.04	20.12
1700	30.33	21.88	23.03
1730	28.98	21.88	23.03
1800	21.18	21.88	23.03
1830	19.85	19.04	20.12
1900	19.60	18.80	19.88
1930	19.02	18.88	19.76
2000	18.80	18.88	19.76
2030	18.53	18.49	19.57
2100	20.42	14.58	16.66
2130	20.42	18.52	19.59
2200	20.42	18.53	19.75
2230	20.42	18.88	19.75
2300	20.42	10.58	19.75
2330	18.30	18.49	19.58
2400	17.72	18.41	19.41

NGC Settlements Limited

INTERNATIONAL CAPITAL MARKETS

OECD group wants strict rules on securities firms

By Richard Waters

SECURITIES regulators should develop their own version of the Basle accord for banks to guard against disruption in the world's securities markets, according to a group of experts convened by the OECD.

Regulators should also consider imposing a new capital adequacy requirement on securities companies as "an additional systemic safety margin" specifically to guard against "severe international market disturbance", the group said.

The recommendations, reported in the latest issue of the OECD's publication *Financial Market Trends*, will add to pressure on national securities regulators to co-operate more effectively. Recent initiatives, such as attempts to agree an international capital adequacy code, have been held up by disagreements and the lack of a suitable forum for debate.

The OECD report suggests that the steps taken so far to guard against systemic risks in the securities markets are likely to prove ineffective in any future financial crisis.

Much effort has gone into the development of "circuit breakers", under which markets are closed temporarily at moments of extreme volatility. The OECD report says, however: "Circuit breakers cannot ensure that, once trading reopens, panic will not revive. Their availability cannot guarantee the containment of systemic contagion in a major market crisis." It adds that moves to control techniques like programme trading are also likely to prove ineffective.

The OECD also criticises the lax margin requirements applied by some futures markets. The desire to increase liquidity means that margin levels are frequently set too low, and attempts to raise them at times of crisis only add to the problem, it says.

The OECD group of experts, created under the auspices of its committee on financial markets, recommends improvements to settlement systems and closer co-operation between regulators to guard against systemic risks.

Reviewing the improvements to settlement systems already proposed by the Group of Thirty, it says the greatest needs are for shorter settlement periods, delivery versus payment arrangements, and the construction of netting arrangements.

It adds that, to achieve proper supervision internationally of diverse financial groups which operate in the capital markets, regulators would need to develop their own version of the Basle agreement for banking supervisors. They would also need to move ahead with common capital adequacy rules, which should be extended to include an additional cushion of capital to guard against "extreme price movements".

NYSE firms made $957m after tax in first quarter

By Martin Dickson in New York

THE sharp improvement in the fortunes of Wall Street securities houses was underlined yesterday when the New York Stock Exchange reported that member-firms made after-tax profits of $957m in the first quarter of this year, compared with a loss of $321m in same period of last year.

In the fourth quarter of 1990 the firms lost $128m.

Wall Street has been helped this year by a first-quarter boom in share prices, currency market volatility, strong trading activity and a recovery in the underwriting of new stock and bond issues.

Firms' expenses have also been pared through numerous rounds of redundancies over the past few years.

Revenues for the NYSE member-firms rose to $15.86bn, up 17.4 per cent from the first-quarter revenues last year of $13.5bn.

The fourth-quarter total was $13.28bn.

Expenses rose 2.9 per cent to $14.4bn, from $14bn in the same period of last year and $13.47bn in the fourth quarter.

The after-tax profits represented a 10.6 per cent annual return on member-firms' average net worth of $36bn.

The NYSE said that about 81 per cent of the 322 firms reporting for the period were profitable.

Commission revenue amounted to 17.4 per cent of revenues, up from 16.7 per cent in the first quarter of last year and 15.5 per cent in the fourth quarter.

The figures collected by the exchange include income from all sources, such as trading, interest and commission. They exclude firms which do not deal with the public, which generally means "specialists" – marketmakers who initiate trades on the floor of the exchange.

The NYSE specialists reported after-tax profits of $38m in the first quarter, compared with $9m in the same period of 1990. Revenues totalled $131m, up from $87m, and there was a 19.6 per cent return on capital, compared with 4.4 per cent.

Slow day as borrowers wait for better conditions

By Tracy Corrigan

ADVERSE conditions in most bond markets cast a pall over the primary Eurobond market yesterday. Although a number of issues are in the pipeline, some borrowers are being advised to wait for better market conditions.

Hydro Quebec, the Canadian utility, is likely to delay plans to launch a C$1bn 10-year global offering until the market improves. Hydro Quebec's first global deal retreads ground broken by another Canadian utility, Ontario Hydro, which launched the first such deal last December.

Petrobras, Brazil's state oil monopoly, plans to tap the dollar sector of the Eurobond market in the next few weeks, marking a return to the international capital markets for

INTERNATIONAL BONDS

Brazilian companies, which have been outpaced in this area by Mexican and Venezuelan companies.

In April, Petrobras and Brazil's state mining company were allowed to break the country's moratorium on debt, and started repaying commercial debt. Both are highly profitable, but are having difficulty finding long-term finance for exploration projects because Brazil is not repaying commercial debt. The deal, via Chase Investment Bank, is expected to total $100m and to mature in two years.

In the Swiss market, a SFr150m 12-year deal for the Canadian province of Newfoundland met a rather unenthusiastic reception, despite carrying a 7 per cent coupon. Several banks declined to join the underwriting group.

Dealers said the borrower's relatively low, single-A, rating had an adverse effect. The issue was bid at 2¾ points below its issue price of 102.

● S.A. Brewing Industries, the Australian group, is planning to issue $75m to $100m of convertible bonds, to fund its acquisition of US water heater manufacturer Mor-Flo Industries.

Lead manager Morgan Stanley International said the issue is expected to emerge later this summer.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Mitsubishi Tst.Fin.(Asia)(b)‡†	100	(b)	101⅞	2001	2/1¼	Salomon Bros.
SWISS FRANCS						
Province of Newfoundland(a)†	150	7	102	2003	-	UBS
LIRE						
Mobil Aust.Fin.Co.(a)†	150bn	12⅛	101⅜	1994	1⅜/⅞	Bca.Comm.Italiana

**Private placement. §Convertible. #With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 50bp over 6-month Libor. Callable at par, once only, after 3 years. If call not exercised, coupon will be fixed at 9⅝%.

Asset-backed US securities to be tracked by Goldman

By Tracy Corrigan

GOLDMAN Sachs has launched the first index designed to track the performance of the US asset-backed (excluding mortgage-backed) securities market.

The Liquid Asset-Backed Securities Index (LABS) consists of bonds backed by credit-card receivables, car loans and home equity loans.

Asset-backed issues totalling more than $140bn have been launched since the market's inception in 1985.

To be eligible, issues must be fixed-rate, triple-A rated, and registered with the Securities and Exchange Commission.

Deals must also total at least $500m and mature in less than 10 years.

Citibank's global issues, widely placed in Europe, will be included.

The index will help investors measure the performance of the asset-backed market against other sectors, and allow fund managers to compare the performance of a portfolio or an individual issue with the index.

It can also be used as an investment vehicle in its own right, when it is incorporated into a security, swap, or other derivative transaction.

"The index also has a benefit for issuers looking for a way to hedge costs of future issues, so that they do not cause temporary supply problems," said Mr Scott Pinkus, an analyst at Goldman Sachs.

Soffex starts to trade options on registered shares

By Tracy Corrigan

THE Swiss Options and Financial Futures Exchange (Soffex) started trading options on the registered shares of Brown Boveri, Swiss Bank Corporation and Union Bank of Switzerland yesterday.

Soffex already lists options on the bearer shares of 11 Swiss companies, including Brown Boveri, SBC and UBS, but these are the first options available on registered shares.

Foreigners can use the options freely, even though there are restrictions for foreigners buying registered shares.

Some investors may prefer options on the registered shares because the market for registered shares is less liquid, so price movements tend to be more dramatic.

Soffex hopes to launch further options on registered shares, but shares have to be easily deliverable, under Soffex rules, before they are considered eligible.

Halifax to establish $3bn Euro MTN programme

By Simon London

HALIFAX Building Society is establishing a $3bn Euro medium-term note programme, the largest and most complex programme set up by a UK mutual savings institution.

The programme is being arranged by Merrill Lynch and allows for the issue of medium-term notes, subordinated notes and unlisted deposit notes in a variety of currencies. Notes can be issued in fixed-rate, floating-rate, zero-coupon or index-linked form.

Ten international banks, including the arranger, are dealers to the programme.

The size of the programme reflects a trend for borrowers to set up large issuing structures to minimise legal and other professional costs. Last month, Abbey National increased the size of its Euro-MTN programme to $5bn.

In March, Halifax set up a DM500m MTN programme, the first UK borrower to enter the D-Mark sector. It is also hoping to set up an MTN programme in the US.

UK building societies are unable to tap the US market because of a conflict between UK and US tax regulations. Companies overcome the problem by issuing notes through a US subsidiary, but building societies are prevented from issuing through an overseas finance subsidiary by the Building Societies Act.

"Our use of MTNs is partly, but not wholly, a response to the increased cost of funding in the bond markets," commented Mr Simon White, assistant treasurer.

Halifax has not issued in the sterling floating-rate note sector of the international bond market since last October.

Although the society has not set a formal funding target for this year, demand for wholesale funds will be low. The UK housing market remains depressed, while the inflow of retail funding is buoyant. Halifax raises around 15 per cent of its financing from the capital markets, among the lowest of the big building societies.

Düsseldorf proposes central services

By Katharine Campbell in Frankfurt

THE Düsseldorf Stock Exchange, Germany's second largest bourse, yesterday indicated its willingness to participate in a unified securities trading system, while holding out for separate existence of regional bourses.

Responding to the initiative favoured by the Frankfurt big banks, Düsseldorf has proposed the centralisation of stock exchange technical services that would allow the independent existence of decentralised exchanges.

This would allow a more competitive national equity and bond trading system while accommodating entrenched regional interests.

Düsseldorf accounts for between 14 per cent and 17 per cent of bond and equity turnover in Germany.

Yesterday's proposal sees the "Deutsche Börse" as a holding company for all the services – computer systems, clearing and so on – in which regional exchanges outside Frankfurt would have a stake, in proportion to their turnover, perhaps around 38 per cent in total.

In contrast, the Frankfurt model appears to involve folding all seven regional exchanges into one holding company.

Japan seeks to improve bond activity

A JAPANESE Justice Ministry advisory body is studying possible legal revisions on domestic corporate bonds and the related "commissioned bank system" in an attempt to improve activity in the market, Reuter reports from Tokyo.

Tight regulation of the domestic market means high costs, effectively limiting issuance to a handful of companies and driving other potential borrowers to the Euromarkets.

An interim report by the sub-committee of the ministry's legislative council urged ending the ceiling on corporate bond issues, which limits firms' borrowings to twice their net asset value.

The sub-committee also seeks to remove article 304 of the Commercial Code, which legally mandates commissioned banks' involvement in many aspects of bond placements.

BNL rating under review

By Richard Waters

IBCA, the rating agency, has said it is reviewing its ratings for Banca Nazionale del Lavoro (BNL), the Italian state-owned bank, following news last week that several banks have withdrawn credit lines.

If BNL were to be forced into supporting Agrifactoring, the troubled group of which it owns 36 per cent either directly or indirectly, it could be left with an exposure of over $1bn, IBCA said.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section

		Monday June 24 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Fri Jun 21 Index No.	Thu Jun 20 Index No.	Wed Jun 19 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (186)	814.54	-1.0	11.15	5.93	11.03	17.53	822.38	820.76	819.37	902.71
2	Building Materials (24)	1036.80	-1.3	10.04	5.98	12.44	28.15	1050.17	1046.50	1036.21	1162.13
3	Contracting, Construction (31)	1231.24	-1.0	9.31	6.56	14.13	31.53	1243.93	1246.95	1248.48	1471.96
4	Electricals (10)	2330.76	-0.7	11.27	5.74	11.30	61.85	2346.30	2346.94	2345.10	2619.46
5	Electronics (25)	1714.14	-1.1	9.08	5.25	14.66	10.00	1733.10	1736.85	1747.04	1809.08
6	Engineering-Aerospace (8)	422.82	-0.3	16.51	5.92	7.28	10.83	424.06	420.58	418.96	473.74
7	Engineering-General (47)	436.46	-0.7	12.65	5.85	9.58	9.64	439.38	441.46	444.46	498.84
8	Metals and Metal Forming (8)	446.56	-0.9	20.32	7.74	6.05	3.76	450.75	448.74	449.35	501.56
9	Motors (13)	320.14	-1.6	12.39	7.58	9.52	9.98	325.31	322.56	324.15	376.61
10	Other Industrial Materials (20)	1504.65	-0.8	9.33	5.33	12.60	33.45	1517.34	1511.33	1502.93	1630.81
21	CONSUMER GROUP (188)	1444.32	-1.2	8.20	3.77	15.00	22.39	1461.91	1458.65	1460.52	1332.71
22	Brewers and Distillers (22)	1766.97	-1.8	8.80	3.73	13.85	27.30	1798.96	1803.64	1813.14	1633.68
25	Food Manufacturing (20)	1152.92	-0.9	9.95	4.29	12.40	22.69	1162.88	1156.58	1163.87	1128.13
26	Food Retailing (16)	2596.20	-0.7	8.39	3.22	15.66	39.42	2614.21	2600.14	2595.30	2546.65
27	Health and Household (21)	3487.35	-1.2	5.49	2.46	20.79	30.21	3531.41	3529.02	3511.89	2577.77
29	Hotels and Leisure (23)	1263.36	-1.3	10.39	5.47	11.43	23.85	1279.36	1277.39	1283.31	1524.18
30	Media (26)	1383.29	-1.0	9.39	5.09	13.47	29.60	1397.89	1390.10	1390.75	0.00
31	Packaging, Paper & Printing (17)	682.25	-0.7	8.15	4.84	14.84	14.33	687.19	690.31	689.96	613.68
34	Stores (33)	882.46	-1.3	8.82	4.17	14.83	15.89	893.70	887.16	891.55	856.98
35	Textiles (10)	548.68	-0.9	9.76	5.69	12.65	11.43	553.79	557.58	556.99	502.65
40	OTHER GROUPS (107)	1198.21	-1.2	10.02	5.35	12.23	16.87	1212.17	1215.38	1222.13	1213.52
41	Business Services (12)	1256.67	-1.3	9.21	5.18	13.27	13.23	1272.62	1271.11	1256.91	0.00
42	Chemicals (21)	1374.07	-1.1	8.22	5.25	13.70	32.35	1389.07	1387.86	1389.60	1317.02
43	Conglomerates (10)	1416.56	-2.1	10.74	7.33	11.23	31.93	1447.06	1447.27	1461.20	1708.88
44	Transport (13)	2180.86	-0.5	8.44	4.83	14.74	38.36	2192.08	2185.35	2193.04	2315.52
45	Electricity (14)	1168.63	-1.1	12.18	5.71	10.34	0.00	1181.84	1178.74	1185.93	0.00
46	Telephone Networks (4)	1406.40	-1.2	10.58	4.33	12.36	5.58	1423.56	1439.16	1454.29	1245.37
47	Water (10)	2237.67	-0.5	18.24	6.90	6.06	39.69	2248.73	2253.99	2259.57	1961.95
48	Miscellaneous (23)	1905.54	-0.9	6.08	5.00	21.10	42.19	1923.37	1926.57	1935.60	1839.46
49	INDUSTRIAL GROUP (481)	1213.48	-1.1	9.36	4.78	13.12	19.68	1227.44	1226.67	1229.20	1200.80
51	Oil & Gas (19)	2364.44	-0.5	11.48	5.79	11.47	50.59	2375.63	2354.66	2356.56	2328.91
59	500 SHARE INDEX (500)	1311.09	-1.1	9.64	4.84	12.88	22.18	1325.03	1322.80	1325.32	1295.81
61	FINANCIAL GROUP (97)	778.42	-1.0	-	6.12	-	20.54	786.25	780.88	783.42	814.88
62	Banks (9)	863.38	-0.9	7.99	6.41	18.16	22.63	871.08	863.62	866.64	867.42
65	Insurance (Life) (7)	1464.88	-1.4	-	5.65	-	41.64	1485.96	1464.65	1473.35	1475.59
66	Insurance (Composite) (6)	675.10	-1.2	-	6.49	-	20.23	682.97	678.25	677.58	711.37
67	Insurance (Brokers) (8)	1107.91	-0.6	7.17	6.07	18.16	29.60	1114.22	1117.58	1119.31	1025.34
68	Merchant Banks (7)	416.90	-0.2	-	5.03	-	10.87	417.72	417.77	417.77	442.62
69	Property (40)	907.82	-1.1	6.86	5.31	20.11	18.80	917.91	911.37	914.93	1086.89
70	Other Financial (20)	263.81	-0.9	9.88	7.10	12.57	7.07	266.20	270.44	273.66	298.48
71	Investment Trusts (70)	1196.61	-1.4	-	3.52	-	18.66	1213.64	1212.55	1213.73	1216.07
99	ALL-SHARE INDEX (667)	1182.63	-1.1	-	4.98	-	21.47	1195.23	1192.43	1194.88	1179.39

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17	Year ago
FT-SE 100 SHARE INDEX♦	2458.3	-29.2	2485.5	2457.8	2487.5	2479.9	2484.7	2516.0	2524.0	2398.5

FIXED INTEREST

	PRICE INDICES	Mon Jun 24	Day's change %	Fri Jun 21	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (29)	120.72	-0.04	120.77	1.74	5.81
2	5-15 years (27)	128.96	-0.12	129.11	2.07	6.73
3	Over 15 years (9)	135.05	-0.10	135.18	1.77	6.44
4	Irredeemables (6)	148.60	-0.21	148.92	1.95	6.35
5	All stocks (71)	128.55	-0.09	128.67	1.95	6.47
	Index-Linked					
6	Up to 5 years (1)	158.91	....	158.90	0.38	2.72
7	Over 5 years (10)	145.17	+0.01	145.16	0.65	2.22
8	All stocks (11)	146.13	+0.01	146.11	0.64	2.23
9	Debs & Loans (56)	109.23	+0.13	109.08	2.19	5.03

	AVERAGE GROSS REDEMPTION YIELDS		Mon Jun 24	Fri Jun 21	Year ago (approx.)
	British Government				
1	Low	5 years	9.12	9.06	10.91
2	Coupons	15 years	10.14	10.11	10.55
3	(0%-7¾%)	20 years	10.14	10.11	10.51
4	Medium	5 years	10.51	10.47	11.87
5	Coupons	15 years	10.39	10.38	11.02
6	(8%-10¾%)	20 years	10.29	10.28	10.80
7	High	5 years	10.68	10.64	11.97
8	Coupons	15 years	10.54	10.52	11.27
9	(11%-)	20 years	10.41	10.40	11.05
10	Irredeemables	†	10.33	10.30	10.47
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.38	4.37	5.27
12	Inflation rate 5%	Over 5 yrs.	4.33	4.33	4.16
13	Inflation rate 10%	Up to 5 yrs.	3.44	3.42	4.16
14	Inflation rate 10%	Over 5 yrs.	4.14	4.13	3.98
15	Debs &	5 years	11.89	11.89	13.49
16	Loans	15 years	11.68	11.68	12.85
17		25 years	11.50	11.50	12.85

♦Opening index 2485.5; 9 am 2477.8; 10 am 2476.5; 11 am 2468.1; Noon 2468.5; 1 pm 2469.5; 2 pm 2465.4; 2.30 pm 2465.9; 3 pm 2463.5; 4.10 pm 2459.2; (a) 8.30am (b) 4.19pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE includes details of the information used in the construction of these indices. These are available by subscription from FINSTAT, 071-925 2323.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	10	63	10
Corporations, Dominion and Foreign Bonds	0	6	14
Industrials	114	449	958
Financial and Properties	26	218	500
Oils	16	19	54
Plantations	0	0	10
Mines	20	58	83
Others	50	59	50
Totals	236	872	1,679

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amt Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
$100	F.P.	–	107	101	Abtrust Preferred Inc. Tst.	104		N12.32	–	15.8	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62	Nil	–	19pm	15pm	Blacks Leisure 50p	15pm	-2
44	Nil	–	5pm	4pm	Fairway (London) 5p	5pm	
52	Nil	–	8pm	3pm	Gardiner Group 5p	7pm	-1
100	Nil	–	30pm	25pm	Jarvis Porter 10p	25pm	
20	Nil	–	2½pm	1½pm	Lon. & Assoc. Inv Tst 10p	1½pm	
72	Nil	–	5pm	2pm	McCarthy & Stone 20p	2pm	-1
33	Nil	–	12½pm	9pm	Merchant Retail 10p	9pm	
11	Nil	–	1pm	½pm	Midwest 10p	½pm	
35	Nil	–	4pm	2pm	Owen & Robinson 1p	2pm	
300	Nil	–	91pm	77pm	Smith (W.H.) A 50p	84pm	-3
150	Nil	–	24pm	11pm	Staveley Inds.	12pm	+1
55	Nil	–	11pm	5pm	Trade Indemnity	6pm	
130	Nil	–	19pm	9pm	Westbury 10p	10pm	-1
140	Nil	–	18pm	10pm	Whitecroft	10pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. § Offered to holders of ordinary shares as a "rights". † Introduction. ¶ Placing price. †† Reintroduction. ‡ Unlisted securities market. ‡ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings June 24
● Last Dealings July 5
● Last Declarations Sept. 26
● For settlement Oct. 7

For rate indications see end of London Share Service

Calls in Aviva Pet., Burton, Davy Corp., First Natl. Finance, Next, Premier Cons. and Tusker Res. Puts in Flexello, Lep and Bernard Matthews. Put and call in Premier Cons.

LONDON TRADED OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Alld Lyons (*536)	500	44	65	74	4½	12	18
	550	14	35	46	23	34	39
Utd. Biscuits (*365)	360	13	27	36	7	5	19
	390	4	11	22	27	32	36
Sainsbury (*345)	330	22	34	42	3½	7½	18
	360	5	15½	25	18	21	24
Shell Trans. (*515)	500	26	38	47	5	16	19
	550	2	12	23	38	46	48
Storehouse (*101)	100	5½	9	13	4½	7½	9
	110	2	5	8	13	14	16
Trafalgar (*241)	240	16	30	31	13	20	28
	260	7	20	22	24	32	40
Amstrad (*65)	60	6	10	12½	1	3	4½
	70	¼	4½	7½	6	8	9½
Barclays (*435)	420	17	30	45	1	13	26
	460	1	11	23	27	40	42
Blue Circle (*244)	240	7	19	28	3	14	16
	260	1	20	17	18	25	28
British Gas (*245)	240	7	11	17	1½	10	13
	260	1	4½	8½	17	26	27
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE INDEX PUTS

Jun	½	1	3	13	48	98	148	198
Jul	9	12	21	37	64	105	148	198
Aug	14	22	35	53	78	112	155	200
Sep	20	30	43	62	86	118	157	200
Dec†	40	–	67	–	110	–	168	–

June 24 Total Contracts 24,516 Calls 11,991 Puts 12,525
FT-SE Index Calls 4,329 Puts 5,461
Euro FT-SE Calls 312 Puts 265
*Underlying security price. † Long dated expiry months. Premiums shown are based on offer prices.

Photographic side pegs Gestetner

By David Owen

A HIGHLY disappointing result from photographic distribution stalled profits growth at Gestetner, which principally distributes copiers and other office equipment items.

The London-based company yesterday reported interim profits of £21.7m (£21.5m) for the six months to April 30.

Turnover – belped by the inclusion for a full period of the Nashna office supply operations – climbed by 13 per cent to £451.1m (£398.1m).

The figures reassured the market, which had expected worse, and the shares climbed 10p to 168p, recovering some of the ground lost in recsnt weeks.

This was in spite of a 20 per cent decline to 10.4p (13p) in fully dilnted earnings per share. The interim dividend is lifted to 1.8p (1.7p) – a gain of 6 per cent.

The contribution to trading profit from tbe pbotographic business fell sharply to just £1.8m (£6m) on sales of £79m (£93m).

The group blamed this on low discretionary consumer spending in its principal markets and the dramatic downturn in recreational travel during the Gulf war.

Mr Basil Sellers, chairman and chief executive, admitted that the timing in August 1989 of the purchase of Hanimex, the Australian photographic equipment distributor, was "terrible", but reiterated his belief that "strategically it was correct."

Office systems lifted its profit contribution to £31.4m (£26.7m), although net margins fell from 9.7 per cent to 8.4 per cent.

Net debt almost donbled over the six-month period to £77m, partly due to overstocking (which peaked in April) and partly to seasonal factors.

Looking ahead, Mr Sellers anticipated a slowdown in continental Europe – where Gestetner derives more than 50 per cent of its sales – bnt projected that second-half profits and earnings per share should he higher than first-half levels.

"We don't think Europe will be an ontrigbt recession – more a slowdown of growth," he said. "We are trying to take our costs down before the event rather than after."

● COMMENT

With the exception of China, where its stencil duplicators are still selling like hot fortune cookies, this was a poor half-year for Gestetner – a fact which is now reflected in its share price. Profits would have been down on a year ago, were it not for lower interest payments. The 20 per cent reduction in earnings per share compares with the group's year-end forecast of continued eps growth, "provided there is no significant worsening of economic circumstances." Of course, economic circumstances have deteriorated and management can scarcely be hlamed for not foreseeing the conflict in the Gulf which so exposed its photographic business. But there are many who feel that the company should not have been distributing cameras in the first place. Wholehearted supporters of the Hanimex deal ars getting harder and harder to find. There will be those who argue that, languishing at their current level, the shares represent good value on a p/e of approximately 8. This assumes full-year profits of £45m or thereabouts. More cautious investors might prefer to wait for confirmation of Mr Sellers' forecast that the projected downturn in the key European market really will not turn into "an outright recession."

Cut in Brent Walker holding

By Maggie Urry

BRENT WALKER announced yesterday that the holding by Credit Suisse London Nominees had fallen from 3.57 per cent to 2.9 per cent, through the sale of 350,000 shares.

Shares in the leisure group, which is in negotiations with its hanks over a financial restructuring package, fell 4p to 28p.

It was only last Wednesday that the stake was revealed, leading to speculation about a mystery investor. Credit Suisse, which is one of the leading banks to Brent Walker, said it could not say anything about its clients' business.

However, the nominee company is used by numerous clients and the stake could be the aggregation of a number of different investors' shareholdings. Further, until the stake went above 3 per cent there was no requirement to inform the company, so the announcement did not necessarily mean the whole holding had been acquired recently.

Bankers said yesterday that the talks with Brent Walker were progressing. The company was holding meetings with lenders to the William Hill bookmaking chain. Loans of £350m to William Hill are considered separate from Brent Walker's £970m debt.

Today sees a special meeting of shareholders to approve an increase in the groнp's borrowing powers to £2bn, and to consider the fall in its net assets to less than half the called np share capital of £133.8m.

The group's borrowing limit is set at twice its capital and reserves. It stood at £1.71bn on the basis of the balance sheet at December 31 1989, hut once the 1990 balance sbeet is andited the limit will fall sharply causing a breach of its articles of association.

An unaudited balance sheet pnhlished with the preliminary results showed shareholders' funds at £139m, while the group's net bank borrowings were £1.2bn and another £101.9m was owed through the convertible capital bond.

The new borrowing power would last until September 30, by which time the group expects to have implemented the restructuring plan.

Another special meeting will take place next week to consider the removal from the board of Mr George Walker, former chairman and chief executive, Mr John Hemingway, a non-executive director, and Mrs Jean Walker, formerly head of the hotels and leisure division.

All three have been stripped of executive responsibilities but the removal of Mr Walker and Mr Hemingway from the board is a condition of the financial restructuring. The Brent Walker board "feels it is also desirable that Mrs Walker be asked to resign from the hoard". All tbree have imposed conditions on their resignations "which are unacceptable to the company" the board said.

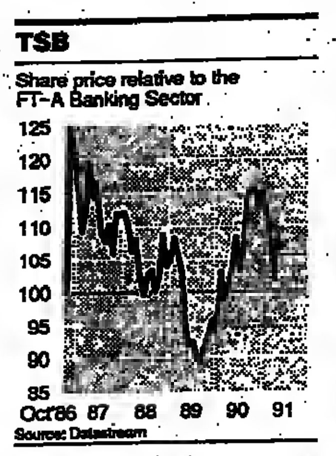
Mr and Mrs Walker are considering legal action against the company, and Mr Walker is also contemplating suing the group's banks.

Looking for an eventual gain from the Hill Samuel millstone

Will TSB stay in the black, asks **David Lascelles**

THE TRUSTEE Savings Bank will become the latest UK bank to bare the scars of recession on Thursday. Its share price shed another 2p yesterday on a welter of news reports suggesting that it might even announce a loss in its interim results that day.

The group, which was privatised in 1986, has consistently disappointed its shareholders with mediocre results and costly, ill-judged acquisitions. But whether or not it actually plunges into loss, these results are likely to be the worst yet.



The problem lies in Hill Samuel, the merchant bank it acquired for £777m in 1987, and through which it is now trying to build up a business lending to the corporate sector – an area new to the TSB. Hill Samuel has borne the brunt of the UK recession, and its bad debts are at record levels. In particular it has an exposure of some £130m to Brent Walker, the property and leisure group which is now in refinancing talks with its bankers, and to which Hill Samuel is merchant banking adviser.

Last year, Hill Samuel made a loss of £40m.

In March, Sir Nicholas Goodison, TSB chairman, replaced the chief executives and set in motion the departure of 16 directors. A few days later he warned shareholders that the interim results "will be substantially worse than for the first half of last year".

The new Hill Samuel management under Mr Hugh Freedberg launched a review which will almost certainly prompt an even higher level of bad debt provisions so as to wipe the slate clean and give the bank a fresh start. These will include provisions of as much as £70m for Brent Walker. The exact amount, to be approved by the board tomorrow, will be the balancing item which determines whether or not TSB goes into the red.

Mr Michael Lever, an analyst at Smith New Court, expects a loss, but Mr Julian Robins of Barclays de Zoete Wedd says: "I shall be very disappointed if they are not in profit." (In last year's first half the group made £175m before tax).

The other big determining factor will be how well the rest of the group has done.

Last year, the high-street banking side and the group which sells insurance and investment services raised their profits by 40 and 33 per cent respectively, and the indications are that this trend continued into the latest six months, though perhaps not as strongly.

Under Mr Don McCrickard, group chief executive, and Mr Peter Ellwood, head of UK banking, the TSB has been waging a tough battle against costs, and is in the process of axing 5,000 of its 25,000 retail banking staff. TSB executives argue that this side of the bank is making progress and should pull the whole group ahead once the economy recovers.

However, analysts will be looking for evidence that Hill Samuel's difficulties are really under control. Although the TSB's calendar first half to end-April coincided with what was likely to be the nadir of the recession, bad debts tend to pile up long after the recovery has got under way, and this week's clean-out may not be the last. As much as 30 per cent of Hill Samuel's loans are in the vulnerable property area, and this could still spring some nasty shocks.

If there is a surprise in the way the stock market has reacted to the TSB's unfolding woes, it is that the group's shares have not fared any worse.

Despite the recent slide to 142p, they are still above their 52-week low of 124p. This partly reflects the fact that TSB's overriding strength is in its capital position. The privatisation endowed it with £1bn of capital of which enough is left, despite bad acquisitions, to avert any need for a rights issue.

Also, later this year the limit on any single stake in the group will be raised from 5 to 15 per cent, and possibly even higher, increasing its exposure to outside interest.

Airtours cuts interim loss and sees gains from ILG collapse

By Jane Fuller

AIRTOURS, the package tour company, estimates that it will carry 41 per cent more passengers this year, with the help of an influx of bookings after the collapse of International Leisure Group, its bigger rival.

Mr David Crossland, chairman, said the group was set to carry 1.1m people, compared with 780,000 last year. He tbonght about 150,000 of tbe additional customers would come from ILG, which was the UK's second biggest tour operator after Thomson.

In the six months to March 31, Airtours halved its seasonal pre-tax loss from £7.95m to £3.69m before the £2.52m exceptional cost of setting up a five-jet airline. This took the pre-tax loss to £6.21m on turnover ahead 37 per cent at £55.45m (£40.42m).

Mr Crossland said the group, which does winter sun rather than skiing holidays, carried 27 per cent more passengers, reaching a total of nearly 250,000.

Before the Gulf war broke out in mid-January, bookings for the coming summer were double those of the previous year. In February, he said, Airtours hookings were 35 per cent ahead, whereas the market had been 22 per cent down.

Airtours claims to have doubled it share of the summer holiday market to 13 per cent, behind Owners and Thomson. In total these three hold more than 60 per cent of the market.

But the market is down by about 10 per cent on last year's 10m holidays.

The airline was expected to recover its non-capital start-up costs in the second half. Eurosites, the camping holidays husiness, was expected to make a small profit after losing £1m last year.

In the first half, the group henefited from interest received of £1.1m (£400,000). It raised £15.4m in April via a share placing and offer for sale, and by last Saturday had £75m on deposit.

Losses per share was cut to 25.34p (32.31p). An interim dividend of 2p (1.5p) is declared.

● COMMENT

Airtours' share price took off like one of its jets from the end of February, trebling in value by mid-May. Apart from reaping a harvest from ILG's misfortune, it has also helped itself. About £2m was saved by reorganising its winter long-haul operation, the airline start-np came in £1m below budget and summer bookings were strong before the ILG and Gulf war distortions. Thanks to ILG, Lancashire-based Airtours has been able to boost its business out of Gatwick, making it more of a national company. In all the euphoria, it is easy to forget the risks of the tour business. Mr Crossland reckons price wars were anuffed ont in 1989, when Thomson took over Horizon. But as his company pushes for market share, it might upset the balance achieved through satiation on the ILG pickings. It is only four years since price wars, over-capacity, air-traffic-control strikes and terrorism left Airtours with disappointing profits soon after flotation. This year, all looks set fair with pre-tax profit forecast to more than double to £13.2m. This prospective multiple of less than 10 still looks comfortable.

WPP shares rally as rights fears recede

By Richard Gourlay

Shares of WPP, the advertising and marketing services group, rebounded yesterday after the company announced it was trading within constraints set by its bankers in April.

The shares closed up 8p at 134p.

Analysts said the market was relieved that a rights issue or an immediate refinancing, rumours of which sent the shares into a spin last week, had not msterialised.

While revenue had fallen by 5 per cent in the first quarter, there had been some improvement since then although there was no sign of a US upturn in the first five months, Mr David Ogilvy, chairman, said at the company's annual meeting.

WPP was continuing to work within the limits of covenants negotiated with its bankers in April when it agreed terms for a $1bn (£612m) restructuring, he said.

Mr Martin Sorrell, WPP's chief executive, said the company was likely to face an interest charge of £40 to £43m this year. The banks have stipulated that interest should be covered hy trading profits twice over.

Thames TV chief waives bonus

By Raymond Snoddy

MR RICHARD Dunn, chief executive of Thames Television, has decided against taking a special £275,000 bonus he is entitled to if Thames retains its commercial television franchise in October.

He has sent his chairman, Lord Brabourne, a legally binding document giving up rights to the payment.

Mr Dunn has not been influenced by the current fashion among some captains of struggling companies to have their pay cut. He has been trying to give the money away all year without any success.

The bonus plan for top Thames executives was part of the offer document when Thorn EMI bought the shares of BET, the company's other main shareholder, and could not easily be varied.

In the run-up to the bids for ITV competitive tenders four top executives at Thames were offered "golden-handcuffs" by the company's remuneration committee to keep them in place, and a further 86 were offered single bonuses if they retained the franchise.

Mr Dunn was given a £150,000 signing on fee for a new three-year contract at £175,000 a year – he was offered £200,000 but asked to have less.

The second payment, of £275,000 would have been due within one month of Thames being awarded a new Channel 3 broadcasting licence.

He says his reasons for passing up his bonus were entirely personal. He would have preferred to take part in an employee share ownership plan to cash bonuses and had been lobbying for such a scheme since 1989.

Once Thorn and BET decided to sell their shares in Thames they felt unable to support such a scheme. Mr Dunn, as a key person in deciding the Thames bid, was also uneasy that he might benefit so directly from the size of bid chosen.

As well as giving up his chances of the £275,000 Mr Dunn has also waived his contractual right to have his £175,000 salary increased in line with the retail price index from the start of this year.

He already has options on more than 140,000 Thames shares at 90p and a further 28,000 at 190p. If any employee share ownership scheme were to be introduced Mr Dunn would also participate.

TT has over 30% of Magnetic Materials

TT GROUP, the industrial bolding company hidding £9.9m for Magnetic Materials Group, now controls more than 30 per cent of its target.

Its final cash offer of 54p per share, or 4-for-10 shares, has become mandatory. The next closing date is July 5 hut the offer period can run for 10 days after that.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Airtours	int	2†	July 29	1.5	-	8.25
Allen	fin	3.3	July 27	3.2	4.9	4.8
Amber Industrial	fin	12	Aug 12	11.6	16.5	16
Cent Stationery	fin	2.8	Aug 5	2.8	4	4
Durham (DG) §	fin	1♥†	Sept 4	1	2	2
Elonbrook Props	fin	2.75	Aug 2	nil	2.75	nil
Fletcher King	fin	0.5	Oct 1	4.7	2.3	8
Gestetner	int	1.8	Aug 29	1.7	-	8.1
Hadleigh Inds §	fin	4.3†	Sept 2	4	6.5	8
Polar	int	2	Aug 8	2	-	4.5
Tex	fin	nil	-	7.5	nil	10.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♥Scrip alternative.

UK COMPANY NEWS

Scots exploit crack in chemist's business

Jane Fuller on the somewhat unlikely bid from Grampian Holdings for Macarthy

"DON'T QUOTE me," said one analyst, "but Macarthy has been one of our most favoured bid stocks for some time."

Any surprise at the battle developing for the pharmaceuticals retailer, manufacturer and one-time wholesaler has been reserved for the identity of the bidder – a Scottish mini-conglomerate called Grampian Holdings, rather than one of Macarthy's rivals, such as AAH or UniChem.

Macarthy's newish management has attracted some sympathy for its argument that it has taken action to sort out the group's problems but needs time to see the measures bear fruit. Totally unsurprisingly, it is describing Grampian's all-paper bid – valuing it at about £57m – as "opportunistic".

At first sight, the only clear overlap between the businesses is in animal medicines, which accounted for less than 10 per cent of Macarthy's continuing businesses last year. In retailing, Grampian has tourist woollen mill shops while Macarthy has high-street chemists, including the Savory & Moore chain.

As a conglomerate, however, Grampian stresses its management record rather than trading synergies. It also has a personal card to play because two of its executives once ran a pharmacy chain that now forms part of Macarthy.

Grampian has never made a hostile bid nor taken on a quoted company. Typically, it has paid up to £5m to add to its animal pharmaceuticals, retailing or sports goods divisions. The fourth leg, transport, has been run for cash.

Mr Bill Hughes, chairman and chief executive, says that seducing target companies has not proved all that difficult in the past.

The group's previous biggest deal was Robert Young, an animal medicines company priced at £15m and equivalent – in 1987 – to 35 per cent of Grampian's size. Macarthy's market value is about half of Grampian's current £123m.

Mr David McGibbon, finance director, says the boldest management step was to buy Patrick, a French sports goods company, from the receiver three years ago. "We could do nothing major until Patrick was on the road to recovery."

This was confirmed in the 1990 results, which showed an 8 per cent advance in group pre-tax profits to £12.1m on sales of £140.1m. Grampian's share price, which had come down from a frothy 232p in May 1989, had bounced back from little more than 100p late last year to 189p on the eve of the bid. A paper bid on the back of share strength made sense as year-end gearing of 45 per cent limited its cash reach.

Macarthy, on the other hand, has seen a much more modest recovery from a low of 124p in January this year. Just before the bid, it was trading at 168p. Last night it closed at 229p.

The reasons for Macarthy's vulnerability start with its poor profit record. Last year's pre-tax figure of £4.6m, on sales of £330m, was the same as that for 1980-81. Even the record £6.5m in 1988-89 could not prevent a reduction in shareholders' funds because of extraordinary costs. The group has dipped into reserves in each of the last three years to help pay the dividend.

Earnings have disappointed since 1987-88, when the number of shares in issue was doubled to fund the £42.6m purchase of the Drummond Pharmacy Group from Guinness. That acquisition sewed the seeds of Grampian's bid because Mr Hughes built up the chain from 1966 to 1978.

After the Drummond purchase, retailing became the biggest contributor to Macarthy's operating profit, with £5.2m in 1988-89 and about £4.7m last year. But Mr Ian Parsons, chief executive and former head of the retail operation, claims the attention of the previous chairman and chief executive, Mr Nicholas Ward, was focused elsewhere.

Mr Ward, now managing director of Brent Walker, the leisure group, had been brought to Macarthy by disgruntled institutional shareholders in 1986. He effected an initial recovery and built up the retail operation.

But in 1988 and 1989, the struggle to defend market share in pharmaceuticals wholesaling led to an unsuccessful bid for UniChem and then wrangles over UniChem's share incentive schemes.

Mr Ward resigned in July 1989 and sued Macarthy for damages. So far £140,000 net has been paid to him. He describes criticisms made of him by the present management as "defence document stuff".

Mr Parsons emerged as one of a "gang of four" managers challenging group strategy. During the UniChem saga, he says retailing was deprived of investment, problems mounted in the factories and veterinary wholesaling fell into losses.

Action has included rationalising manufacturing and the sale last August of the low-margin pharmaceuticals wholesaling business for £18m, bringing gearing down from 100 to 50 per cent.

Tony Andrews

Bill Hughes (left) and David McGibbon: personal card

The 1989-90 accounts show continuing businesses making £7.1m (£6.9m) operating profit on sales of £195.2m (£186.8m). Mr Parsons' case is that Macarthy is ready to go forward from that base.

One nagging doubt, however, is that even an improved pre-tax profit approaching £5m this year would be soaked up by the dividend payment. Already debt is about £15m, rather than the off-peak £10m reported last September, following some shop refurbishments.

Grampian, which is forecast to increase pre-tax profit to £14m this year – more than nine times the 1983 level – says it is generating enough cash to do more.

The outcome will obviously depend on price. The market has put Macarthy's shares at a 10 per cent premium to the offer. Some cash may also have to be put on the table.

In valuing the group, the biggest element is the 180 chemist shops. If the price Lloyds paid in April for Kingswood is applied, Savory & Moore alone is worth £51m, before deducting debt, although Grampian argues that the state of the shops is not comparable. Other parts of the business include a large store in central London and 30 healthfood shops as well as specialist distribution, manufacturing and veterinary.

If Macarthy holds off Grampian, its management may still not be allowed time to build its own track record. It would be no surprise to find either a white knight or another unwelcome bidder entering the fray.

● The Office of Fair Trading announced yesterday that the bid would not be referred to the Monopolies and Mergers Commission.

Kleinwort Benson launches new trust

By Philip Coggan, Personal Finance Editor

KLEINWORT BENSON is launching its first new investment trust for 60 years – a split capital trust called Kleinwort High Income.

This type of trust has become very popular with private investors over the past year or so.

The new trust is aiming to raise a minimum of £17.5m via an offer for subscription sponsored by Cazenove, the stockbroker. Applications will close on July 24 and dealings start on August 1.

Two classes of shares are on offer: ordinary and zero preference. The former will receive all the income from the trust, and will pay dividends quarterly, with a planned initial yield of 10 per cent. The trust's assets will need to grow at 6.25 per cent per annum over its seven year life for the ordinary shares to be redeemed at their issue price of 100p.

The zero dividend preference shares will be issued at 100p and will be repaid at 206.8p per share when the trust is wound up in 1998. This is equivalent to a compound yield of 11 per cent per annum.

The trust's portfolio will be invested primarily in UK quoted companies and run on similar lines to the Merchants Trust, also managed by Kleinwort Benson. Merchants is second (out of six) in the UK income growth sector over five years and fourth (out of five) over 10 years, according to Micropal.

Capital & Counties tries again to sell off Australian stake

By Mark Westfield in Sydney

CAPITAL & COUNTIES, the UK property group, has decided to try again to sell its controlling stake in Australia's Capcount Property Trust to Burwill Holdings, the Hong Kong-based steel and minerals trading house.

Last month Capital & Counties was denied approval by unit holders when it sought to sell the 53.7 per cent holding to Burwill.

This time, it has proposed a variation of the Savoy clause to dispose of the stake.

Last night, it announced to the Australian Stock Exchange that it was negotiating to sell Burwill a 19.9 per cent holding – the maximum permitted under the trust deed – at 77 cents a unit, or a total of A$46.4m (£21.8m).

Capital & Counties plans then to make a non-renounceable offer to sell its remaining 33.8 per cent on a 1-for-2 basis to minorities at the same price.

Burwill plans to take up its entitlement which would increase its holding to about 37 per cent. By sub-underwriting the offer (with Burrowes, the stockbroker, being the primary underwriter), Burwill hopes to secure between 40 and 50.1 per cent of the trust.

The purchase will cost Burwill between A$72m (for 40 per cent) and A$90m (50.1 per cent) plus another A$8m for the management company, Capcount Management.

After going ex-distribution of 2 cents a unit yesterday, Capcount shares fell 2 cents to 67 cents, capitalising the trust at A$156m.

Capital & Counties is not expecting to be rushed at the offer price because investors can buy the stock 10 cents cheaper in the market.

Unit holders can take up their entitlement at 77 cents a unit, or let the offer lapse. The Burwill underwriters would then pick up the rejected units.

Capcount has a net asset backing of 98 cents but, like most listed property trusts, is trading at a discount during the property recession.

Capital & Counties' offer will be non-renounceable, a device to prevent unit holders selling their rights to a potential greenmailer.

A group of institutional holders, including the National Mutual Life Group, NRMA and Growth Equities Mutual, helped to defeat Capital & Counties' plan to make a clean sale of its entire holding to Burwill at a unit holders meeting last month.

Disenchanted investors were unhappy that the majority unit holder should receive a premium for its stock while the minorities got nothing.

There was also some ill feeling among unit holders that Mr Peter Kernaghan, the executive Burwill was to bring in to run the management company, was to be paid an introduction fee of A$2.9m.

Capcount Property Trust holds a number of suburban property developments around Sydney plus about A$42m cash.

Capital & Counties' proposed offer will be the subject of a prospectus expected to be lodged with the Australian Securities Commission in the next three to four weeks.

Burwill is 22 per cent owned by the Singapore government and 14 per cent by Lang Hancock, a Western Australian mining concern.

Housebuilding lifts Allen to £5.25m

By Michiyo Nakamoto

A FIRM rise in housebuilding income helped Allen, the north-west based contractor, plant hirer, housebuilder and property developer, lift pre-tax profits by 5 per cent, from £4.85m to £5.25m, in the year to March 31.

The group achieved this result on turnover ahead from £51.94m to £67.45m, and in an increasingly harsh climate of high interest rates and falling business activity.

However, Mr Donald Greenhalgh, chairman and managing director, warned that the group might not be able to maintain its record of profits growth this year.

"Nothing tragic is going to happen but it's going to be tougher this year because of falling margins in the contracting side," he said.

Allen's base in the north, where the economy has been relatively resilient, and its emphasis on the lower end of the housing market shielded it to a degree from the impact of the recession.

The strongest rise came in housebuilding with turnover advancing by 48 per cent to £16.85m and operating profits by 49 per cent to £2.42m.

Plant hire reported a 21 per cent rise in turnover to £8.47m and operating profits were up 16 per cent at £1.67m. That was despite pressure on margins and further bad debts.

Property development and investment saw turnover increase by 37 per cent to £1.9m with operating profits more than doubled at £754,000.

Allen's one disappointment was its contracting business, where turnover slipped 5 per cent to £40.24m, and operating profits dropped 24 per cent to £1.37m as margins fell.

Mr Greenhalgh could not be optimistic for that sector but said all contracts had been budgeted to make a profit.

Group borrowings were £4.2m against net assets of £16.6m, giving gearing of 25 per cent. Interest cover was 6.5 times.

Earnings per share increased to 15.47p (15.42p) and a final dividend of 3.3p (3.2p) is recommended, making 4.9p (4.8p) for the year.

IoM Steam bill rejected

THE MANX government's proposal to restrict shareholdings in the Isle of Man Steam Packet Company to 15 per cent has been rejected by that government's select committee, whose report was published last week, writes Sue Stuart.

Last summer's hostile bid for the company by Sea Containers created anxiety in the Isle of Man. This resulted in an emergency sitting of the island's parliament in July which put up a bill to limit holdings in IoM Steam retrospectively from May 31 1990.

Before the bill's final reading, a select committee was appointed to examine all implications for the island. Sea Containers withdrew its offer.

While in doubt of the international legality of such legislation and of its effect on confidence in the island's expanding finance sectors, the committee is aware of a need for the Manx government to maintain some control over the island's shipping line.

It recommends obtaining ownership of the linkspans (berthing points) and negotiation of an exclusive user agreement, to ensure adequate services, that includes a "golden share" provision.

BOARD MEETINGS

TODAY

Interims— Auckland Associates, GT Asia (Sterling) Fund, Greenwich Res, India Fund, Pacific American Business Systems, Rugby (AF), Debenham Tewson & Chinnocks, EFG, Helm, Kallad, Microlec, MSA, National Power, Northumbrian Fine Foods, Pleion Intl, Sime Food, Southbrook, Southern Water, Sterling Inds, Westport.

FUTURE DATES

Interims—	
Beckenham	June 27
First National Finance	June 27
Grandis	July 3
Newman Tonks	July 3
Speyhawk	June 28
Finals—	
Amrad New Dawn Trust	June 28
Asprey	July 4
Boscombe Property	June 27
Bromsgrove Inds	June 26
Bucknall	July 9
Dares Inv Trust	June 28
Davies & Newman	June 26
Druck	July 4
Eidos	July 16
Ellison	Sept 12
Greene King	July 11
Latham (James)	June 26
Lokie	July 11
MS Intl	July 4
Morris Ashby	July 1
Mosaic Invs	July 9
Scanronic	June 26
Shoprite	June 26
Standard Platform	July 15
Stirling	July 4
TDI	June 26
Trans World Comms	June 28
Wiltshire	June 27

NEWS DIGEST

Hardy Oil doubles to £10m

AS PREDICTED by the directors at the time of a £27.6m rights issue last April, after-tax profits of Hardy Oil & Gas rose to £10.14m for the year to March 31.

That compared with £5.05m previously and was struck after taking account of a swing from interest income of £1.43m to charges of £2.14m, other costs of £1.21m (income £255,000) and a tax credit of £3.99m (nil).

Turnover improved to £39.35m (£26.11m) and earnings, prior to extraordinary items, emerged at 16.7p (10.2p).

The company, demerged from Trafalgar House in 1989, has yet to pay a dividend but directors hope to recommend an initial dividend in respect of the current year.

£1m decline at Cont Stationery

Termination of the cellular telephone business and losses of £300,000 in Prontaprint International hit Continuous Stationery in the year ended March 28 1991.

They outweighed improved operating figures in business forms and the UK Prontaprint franchise, and led to a reduction in pre-tax profit from £2.3m to £1.26m. Turnover dropped to £17.21m (£21.53m).

Mr Bill Eastwood, chairman, said the decline in profits seen in the second half had been halted, but as yet there had been no significant increase in the level of activity.

The final dividend is again 2.8p for an unchanged total of 4p. Earnings fell to 5.18p (8.69p).

Extraordinary costs of £473,000 included £300,000 on closure of the last business forms manufacturing plant in Nottingham. The group is operating on a distribution basis.

Polar warns of current year setback

Polar, a distributor of electrical components, is expecting taxable profits to drop to about the £1m mark for the current year to September 30.

In the opening six months, profits fell from £601,000 to £482,000, and the second half result was expected to be similar, said Mr Keith Carmelley, chairman. In the previous year the group made £1.32m.

He said the group had been developing the base of its business. It received a first full contribution from Hawke Components, which specialises in the design of components to customers' own specifications, and the Texas Instruments' franchise acquired last year was developing well. The group had also won the franchise to distribute Inmos products.

Sales in the half year totalled £7.7m (£8.76m). Earnings were 4p (4.9p) and the interim dividend is held at 2p.

Hadleigh's progress checked by recession

Progress at Hadleigh Industries since it joined the USM in 1989 has been interrupted by a slide in pre-tax profits to £1.81m in the year to March 31.

The fall from £2.04m was struck on turnover up £8.78m at £34.43m. Mr Tony Cookson, chairman of this industrial holdings company, blamed high interest rates and the recession for trading conditions which made the period a difficult one in which to maintain Hadleigh's historic growth record for sales and profits in the core engineering business.

Operating profits were ahead at £2.24m (£2.1m), but net interest payable vaulted to £428,000 (£67,000). Earnings slipped to 17.8p (20.7p) and the final dividend is lifted to a proposed 4.3p for a total of 6.5p (6p).

Sharp fall to £0.5m at Fletcher King

In a "disappointing" set of results, Fletcher King reported a sharp reduction in pre-tax profits from £2.12m to £525,000 in the year to April 30.

Mr David Fletcher, chairman of this commercial estate agent and surveyor, said the results reflected the property market's slow-down as high interest rates bit into the economy and reduced business confidence.

Turnover fell to £7.05m (£9.17m) and earnings to 4p (15.6p) per share. The board proposed a final dividend cut to 0.5p (4.7p) to make a total of 2.3p (9p). This is covered 1.7 times, the same as last year.

Tex Holdings dives to £522,000 loss

Tex Holdings, a manufacturer of piling equipment, plastics, boards and panels and system building, followed the construction industry downturn with a dive from a £1.73m pre-tax profit to a loss of £522,000 for the year ended March 31.

No dividend is declared for the year (10.5p) and losses per share stood at 5p (18.6p earnings).

Turnover reached £18.33m (£17.42m). Following disposals as part of a cost-cutting programme, assets per share decreased from 117p to 100p at the end of the period.

Old St sale boosts Etonbrook result

Etonbrook Properties turned from a loss of £1.74m to a pre-tax profit, after exceptional charges, of £1.63m in the year ended March 31.

Mr Jonathan Harris, chairman, explained that the turnround stemmed from the sale of the development in Old Street, London, for a net profit in excess of £2.5m.

Exceptional costs this time of £1.45m (£1.69m) included £1.32m written down on stock of properties because of the general fall in property prices.

Mr Harris said development of the Croydon site had been deferred. Therefore, the group was free from debt, had surplus cash deposits, and a positive cash flow from rental income and interest receivable.

Earnings per share were 34.2p (losses 40.7p) basic and 30.8p (losses 37.8p) fully diluted. The recommended dividend is 2.75p (nil).

Amber Industrial 5% higher at £2.4m

Profits of Amber Industrial Holdings, the speciality chemicals company 75 per cent-owned by Caledonia Investments, rose from £2.28m to £2.4m pre-tax for the year to end-March.

The 5 per cent advance was helped by a rise in net interest income to £619,000 (£389,000) and full year contributions from Servo-Chem and Formal Blending.

Turnover improved to £14.94m (£13.11m). Earnings dipped to 36.3p (39.6p) but the dividend for the year is increased to 16.5p (16p) via a proposed final of 12p.

Reed Intl chief's salary maintained

The salary of Mr Peter Davis, chairman and chief executive of Reed International, the publishing group, has been held at more than £300,000 despite "disappointing" results last year.

Reed's annual report showed that last year Mr Davis was paid a total of £307,574 as chief executive. This year his salary is £310,569 although he is now also chairman.

Earlier this month Reed announced a 27 per cent decline to £322m in pre-tax profits because of the advertising recession, the effects of the Gulf war and a weaker dollar.

In the annual report Mr Davis warned that the company had started the new financial year with many of its markets at a more depressed level than they were this time last year.

DG Durham falls 30% to £0.77m

Difficult trading in the US and the reduction in travel resulting from the Gulf war left 1990 pre-tax profits at DG Durham Group, the USM-quoted insurance broker, 30 per cent lower at £765,000, compared with £1.1m.

Mr Richard Read, chairman, said that travel had now picked up and it was hoped the earlier profit fall would be recovered later this year. However, the outlook was still not as good as he would like.

Turnover was £9.23m (£9.09m) and earnings came out at 4p (5.2p). An unchanged final dividend of 1p is proposed for a maintained total of 2p.

COMMODITIES AND AGRICULTURE

Soviet bank reveals gold reserves

By Kenneth Gooding, Mining Correspondent, in Vienna

FOR THE first time the thick veil of secrecy surrounding the Soviet Union's gold reserves was lifted slightly yesterday when a senior official revealed that the Central Bank had gold worth US$44.4bn in its official reserves.

Mr Alexandre Doumnov, deputy managing director of the international monetary and economic department of the State Bank of the USSR (Gosbank) told the Financial Times Gold Conference that the reserves totalled 374.5 tonnes.

However, he drew back from giving any hint about the Soviet Union's total gold stocks, mostly held by the Finance Ministry, because, as one of the world's leading gold traders, his country wished to keep this a commercial secret.

Mr Doumnov said Gosbank took a very conservative approach to its official gold reserves and had no intention of selling any of the precious metal or of moving it abroad as a collateral for loans.

Gosbank would prefer to raise its gold holdings. The Soviet parliament recently gave permission for some of the stocks held by the Finance Ministry to be transferred to the central bank. He hoped this would take place "within a year".

The transferred gold would be used in a fund designed to protect the rouble. "This could be done in a number of ways: by selling gold coins to the Soviet people or using foreign exchange earnings from gold sales abroad to stabilise rouble exchange rates," said Mr Doumnov.

"There are also some suggestions both from academic circles in the Soviet Union and from foreign advisers to use gold as an instrument of achieving rouble convertibility."

Mr Doumnov said that rouble convertibility would be accompanied by liberalisation of the Soviet gold market. There was pressure within the Soviet Union to make these changes well before the end of this century but there were still many obstacles to be cleared first.

Questioned about claims some individual states were staking to Soviet gold, Mr Doumnov suggested that it had been agreed that some producers might keep part of their output in future. However, he gave a clear hint that a transfer of gold stocks might not be on the cards when he pointed out that any state wishing to leave the Soviet Union would have to take on its share of liabilities as well as assets.

Analysts and dealers at the conference pointed out that Gosbank would have to provide details of its gold and monetary reserves soon because it wished to become an associate member of the International Monetary Fund.

The gold price fell sharply on the London bullion market yesterday afternoon, passing through the key support level of $365 a troy ounce after a sell-off in gold futures on New York's Comex triggered stop-loss selling orders. It closed at $361.20 an ounce, a fall of $5.60 on the day, after trading below $360. Dealers said the speed of the fall reflected the thin European market, which was unable to absorb the sales.

Producer hedging keeps price low

Kenneth Gooding reports from the Vienna gold industry conference

MORE THAN 1,100 tonnes of gold was covered by mining industry hedging – blamed by many for holding down the gold price in the past 18 months – at the end of last year. The total was boosted to even higher levels when the Gulf crisis flared into war.

Making these points yesterday, Ms Jessica Jacks, an economist at the RTZ Corporation, said the important influence on the gold price, however, was the net new hedging business last year.

Her painstaking research had identified 238 tonnes of new hedging, most of it (159 tonnes) in forward sales.

Giving probably the first authoritative statistics on the subject, Ms Jacks said that by the end of last year the Australian gold industry had sold 81 per cent of its 1991 output, locking in an average price of US$447 a troy ounce. It had also committed 50 per cent of next year's production and 34 per cent of that for 1993.

However, total new hedging business by Australian companies totalled only eight tonnes, implying that they did not depress the price through hedging as much as widely believed. In contrast, North American companies accounted for 124 tonnes of net new hedging business at an average of US$430 an ounce. But "hedging in North America still has a long way to go both in terms of the volumes involved and the type of instrument used", said Ms Jacks.

South Africa had only just entered "the hedging maze" and at the end of 1990 had 15 per cent of annual output or 90 tonnes of 1991 output associated with some sort of price protection.

Ms Jacks said the global total of gold hedging could be expected to remain high for some years. "The more mines hedge, the more their cumulative activity caps the gold price and therefore the more they need to hedge to protect their profitability. Hedging has become self-fulfilling."

FT CONFERENCE GOLD

Delegates hoping to hear about the gold price being helped upwards by potential cuts in gold output were disappointed by speakers from the three major western producing countries at the conference.

Mr Robin Plumbridge, chairman of Gold Fields of South Africa, suggested that although there would be more casualties in the South African industry and there would be a short-term reduction in gold output, "if the price conditions and the cost conditions are favourable, South Africa has enormous undeveloped resources, many of which have been fully explored."

"Major South African companies have the resources which dwarf those of their counterparts elsewhere in the world and above all there are substantial resources awaiting development when the real gold price recovers, as it surely will."

Mr Fraser Fell, chairman of Placer Dome, pointed out that since 1986 gold output in North America had more than doubled from 3.6m ounces to 10m ounces. Future annual output would not grow at such a fast rate, but it would continue to grow. Neither would Canada see much of a fall from this year's expected output of 5.8m ounces as new projects would replace fading mines.

Mr Robert Champion de Crespigny, chairman of the Normandy Poseidon group, said that, although Australia would have two or three poor years, with production falling from a peak of 241 tonnes in 1991 to possibly as low as 180 tonnes in 1993, by the late 1990s the country would be a major gold producer again. This would be achieved through corporate rationalisation, more serious exploration for large, long-life projects and rationalisation among the mines.

Mr Ricky Hall, assistant general manager, Bank of International Settlements, said central banks, with US$368bn of gold in their reserves, were getting a poor return on this metal. Gold bought ten years ago at US$459.25 an ounce should now be valued at $823 to match an investment netting a modest compound 6 per cent rate of interest.

Central banks who were worried that they could not put their gold holdings to work for fear of "causing shame or a political loss of face," should consider setting up a form of mutual fund, he said. Member countries could place as much of their gold reserves as they wished into the fund which would hold gold in "good delivery" form only in physical locations of its own choice.

"The fund would need to have access to the currencies it needed by borrowing or doing swaps in its own name. By going through the fund any embarrassment which a central bank might feel about mobilising its gold directly in the market place could be overcome."

Mr Klaus Mundl, managing director of the Austrian (Austrian) National Bank, said that for the public at large gold "is not so much a safe haven as a treasure trove to tide us over bad times". The highly-successful launch by Austria of its Philharmoniker legal-tender gold coin in 1989 showed how a monetary authority could "reinvigorate the gold market".

Mr Robert Guy, a director of N.M. Rothschild, also stressed that the answer to the gold market's present tribulations lay, not on the supply side, but in creating more demand by more promotion. Not only should gold jewellery, by far the biggest market for gold, be given more promotion, so should gold market participants promote their innovative wares. "At a high price, gold sells itself but at a low price spend more on marketing," he said.

Mr Stewart Murray, managing director of Gold Fields Minerals Services, said that, as the world becomes wealthier and more populous, it would be reasonable to expect gold jewellery sales to increase from the present 1,700 tonnes to between 2,500 and 3,000 tonnes by the end of this century.

Other speakers yesterday were Mr Husnu Akhan, manager, foreign exchange, bank notes and gold markets division, Central Bank of the Republic of Turkey, Mr James Cross, general manager, gold and foreign exchange department, South African Reserve Bank, and Mr Euan Worthington, director of mining, S.G. Warburg Securities.

EC policy 'devastating' for NZ dairymen

By Our Agriculture Staff

THE EUROPEAN Community's increasing subsidies to its milk producers and dairy processors will soon spell bankruptcy for many New Zealand farmers, according to Agra Europe, The independent Brussels-based news letter.

Quoting new figures from the New Zealand Ministry of Agriculture, the newsletter says that average New Zealand dairy farm profits are likely to fall in 1990-91 by 58 per cent compared with 1989-90.

They will be 46 per cent less in the current season than the average profit of the past six years.

In its latest report, Agra Europe says the blame for declining New Zealand profits lies principally with the EC, which since late 1989 has "chased the world market downwards with ever-larger export subsidies. . . in an effort to maintain their share of a diminishing world market".

The increases, particularly marked last year, have had a "devastating" effect on world prices and thus on the New Zealand industry, which has no protection and exports 90 per cent of its output.

In 1991, most New Zealand dairy farmers are surviving only because they are still getting some benefit from the higher national prices paid in the late 1980s.

However, now "the reality is that unless the world dairy market markedly improves in the next six months, many New Zealand dairy farms will be close to bankruptcy in 12 months' time".

Debt relief for German farms

THE GERMAN government's Treuhand privatisation agency says it will ease the debts of east German collective farms to facilitate their adaptation to the market economy, reports Reuters from Berlin.

The agency, which owns more than 10,000 former East German state companies and farms, says it has received 3,100 requests for debt relief from the agricultural sector.

It says the DM1.4bn (£480m) in its budget for debt relief would not be sufficient and that the government has agreed to top up the amount.

Payments of interest and capital will be suspended until the farms are financially consolidated and the interest will be paid out of a compensation fund. The Treuhand says it will distribute its available funds equally among all applicants. Once the total debt has been calculated, a quota for debt relief will be set.

The case against nitrates is far from watertight

Health threats may be imaginary but curbs could have a very real impact on arable earnings

FARMER'S VIEWPOINT

By David Richardson

THE NITRATE directive agreed by European Community environment ministers in Luxembourg earlier this month is seen by many farmers as an unnecessary restriction to deal with an imagined problem. Its progressive imposition will by the year 2003 limit applications of nitrogen fertilisers to a maximum of 170 kg a hectare and that, says Britain's National Farmers' Union, could pose a major threat to the livelihoods of many farmers.

This latest directive is the most recent element in a continuing saga that began in 1980 with directive 778, which laid down a mandatory limit of 50 parts per million of nitrate in drinking water. Previously the UK had been working to a limit of 100 parts per million with no ill effects on consumers.

The reasons for restrictions of any kind are based on the belief that excessive nitrates can cause blue babies and stomach cancer. The facts show, however, that the last birth of a blue baby in the UK was 30 years ago, and in that instance the mother had been drinking drank untreated well water. And the incidence of stomach cancer in eastern England, where nitrates levels are highest – in some areas a little above the new 50 parts per million limit – is below that of the rest of the country.

Statistically it could be argued therefore that a modest amount of nitrates in water is good for you. Nevertheless the community limit stands and the UK government has agreed to accept it, even though it may still take several years to achieve.

One reason for this is the fact that it is not just the leaking of agricultural fertilisers, both organic and inorganic, that puts nitrates in water. Sewage treatment plants run by the water companies are also significantly involved, as are certain industrial wastes that find their way into water supplies.

Moreover it is almost certain that conventional agriculture is contributing less to the nitrate content of water than it was a few years ago. Records of average levels of inorganic nitrogen fertilisers spread on the land in the UK indicate that they peaked at about 192 kg a hectare in 1985; since then applications have declined to average 182 kg a hectare.

Furthermore this reduction has been associated with more sophisticated use of fertilisers. Today most farmers "spoon feed" their crops by spreading small quantities of fertiliser up to three times during the growing season instead of applying a season's supply in one dollop as they did in the past. This controlled application ensures that plant roots take up the fertiliser as they require it and reduces both waste and leakage into water supplies. It has also, as the average application figures show, enabled the total amount spread to be reduced.

This in turn should have led to a stabilisation and in some cases a reduction in the level of nitrates in water supplies in some intensive arable areas.

Paradoxically, however, this cannot be claimed for the fully organic systems of farming, which are being promoted by some as being the way forward to better health.

In order to maintain the fertility of land without inorganic fertilisers it is necessary to keep livestock that produce farmyard manure and/or to grow crops to plough under as "green manure". These include grass, mustard, phacelia and many others, which break down in the soil to provide plant food for future crops.

As such green material and farmyard manure decompose, however, they are liable to lead to uncontrolled flushes of nitrates leaking from soil. So far as nitrates in water are concerned, therefore, it is fortunate that organic farming is conducted on only a tiny proportion of the arable area of this country.

Meanwhile, in pursuit of the arbitrary 50 parts per million level of nitrates in drinking water the British Ministry of Agriculture has designated 10 Nitrate Sensitive Areas, totalling over 10,000 hectares of England. In such areas farmers are invited, in return for compensation for loss of income, to accept certain limitations on their rotations, their use of fertilisers and on the numbers of livestock they are allowed to keep. It was announced last week that 87 per cent of the farmers in the designated areas had agreed to participate in the scheme.

The idea is to monitor the water in such areas to assess the impact of the modified approach over several years. This in turn should provide the information needed if and when restrictions are imposed over perhaps 2m hectares as a result of the recent EC directive.

It is not clear if the farmers in this much bigger block of Britain would be compensated, as the NFU has already demanded. The cost to taxpayers of providing compensation to farmers over such an area would be massive. It represents about 20 per cent of the country's arable land, much of it in the south and the east, where it farm.

The government will have two choices: either to adopt principles similar to those already adopted in the nitrate sensitive areas or to persuade water companies to treat or blend water to the required standards. The second choice would also be very expensive, but could well turn out to be the cheaper.

For we farmers the prospect of having to cut the use of nitrogen fertiliser to 170 kg a hectare on all crops is worrying, to say the least. We are in the habit of using more than 200 kg a hectare on crops such as wheat, oilseed rape, potatoes and grass and to reduce this to less than the optimum level would clearly cut potential yields. It is worth pointing out that the Ministry of Agriculture's own guide to Good Agricultural Practice sets 250 kg of nitrogen a hectare as the level that should not be exceeded.

Many British farmers, myself included, take the view that the community directive on nitrates has more to do with politics than with pollution. As indicated above, the medical justifications for setting the 50 parts per million limit in water are questionable in the extreme.

Far more likely, it seems to us, is the suggestion that the real reason for imposing such stringent restrictions on farmers is to cut the production of crops that are in temporary surplus.

The trouble is that farming is a long-term business and the supply and demand for food is cyclical. Sometime over the next few years it is inevitable that there will once again be shortages of food.

Governments will wish to promote the production of more of it and the most effective and speedy way that can be done will be to increase applications of nitrogen fertiliser, some of which may leak into water in those areas about to be restricted.

How will governments then explain to confused consumers that a little bit of nitrate in water is, and always has been, absolutely harmless?

WORLD COMMODITIES PRICES

MARKET REPORT

London cocoa prices fell sharply on long liquidation. Dealers said several key support levels were breached, triggering sell-stops. Limited industry buying interest was evident around the lows. "I think the whole thing just snowballed," one dealer said. The downward pressure has been partly fuelled by continued reports from West Africa that crops are progressing well with talk of good pod counts. New York prices were well down at midday. On the LME aluminium closed off the day's lows after talk that warehouse stocks will not show such a large rise as originally expected when data is issued today. Rumours of stock rises this week, possibly totalling up to 50,000 tonnes as Soviet metal arrived, helped to drive prices down earlier. In contrast, expectations that copper stocks would continue to decline helped the market to stabilise. But traders remained cautious given uncertainty over the outcome of tomorrow's strike vote at Chuquicamata, the world's largest copper mine. Three-month zinc touched a contract low of $1,046 a tonne in the afternoon before recovering slightly. Traders said the market, rapidly approaching the slack summer period in Europe, generally remained under pressure from an oversupplied physical sector.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	\$15.20-5.30z	-.125
Brent Blend (dated)	\$18.10-8.20	-.25
Brent Blend (Aug)	\$18.25-8.35	-.175
W.T.I. (1 pm est)	\$19.95-0.05z	-.10
Oil products (NWE prompt delivery per tonne CIF)		+ or -
[illegible]	[illegible]	[illegible]

SUGAR – London FOX ($ per tonne)				
Raw	Close	Previous	High/Low	
Aug	219.00	223.00	223.00	218.40
Oct	191.00	191.00	193.00	190.00
Dec	187.00	188.00	187.00	184.00
Mar	183.00	184.00	185.00	183.00
May	187.00	186.00	187.00	185.00
White	Close	Previous	High/Low	
Aug	302.0	305.0	305.4	302.0
Oct	288.0	289.5	288.5	287.0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

New York

Chicago

LONDON STOCK EXCHANGE

Shares near bottom of trading range

UK STOCKS joined the downward trend of other leading world equity markets yesterday, falling by nearly 30 points on the FT-SE scale as unpromising developments in Tokyo overshadowed investment confidence. Selling pressure remained light, although the market ended within eight Footsie points of the lower end of the trading range of 2,450 to 2,550, which had been established over the past six weeks. The closing minutes of the trading session were featured by a return of hints that a large rights issue may be in the pipeline.

In addition to the 569 points or some 2 per cent fall in Tokyo's Nikkei index overnight, in the wake of the resignation of the heads of two of Japan's Big Four securities houses, London had to face several other negative factors. Investors were discouraged by another gloomy survey of business opinion from the Confederation of British Industry, by unimpressive UK trade data for last month, and by uncertainty hanging over currency markets following the meeting of G7 ministers in London at the weekend.

In the face of these uncertainties, equities opened lower, gave further ground as other European bourses fell and closed at the day's worst as Wall Street opened its new session with a loss of 28 Dow points in London trading hours.

However, in relative terms, London's fall was no worse than those of other leading stock markets, and the chief complaint from London trading rooms was, as usual, the lack of genuine investment business.

The final reading left the FT-SE Index at 2,458.3, the fall of 29.2 taking it to its lowest closing level since May 17.

There was nervousness at the proximity of Footsie 2,450, but traders claimed to have seen some, albeit very little, bargain hunting at the end of the day.

Some equity chart analysts believe that FT-SE 2,470 was the significant level. At Schroders, Mr Robin Aspinall warned that an interim rally to 2,490 or so should be regarded as "a nice selling opportunity".

There was hardly any response to the disclosure of the UK trade figures for May, although the current account deficit of £523m was at the bearish end of City forecasts. Analysts' comments on the trade figures were largely negative, with specialists focusing on the underlying deficit in Britain's trade.

The debate over when UK base rates will be reduced again was put on hold as the stock market scrutinised the currency markets, waiting to see if central bankers would take action on the US dollar.

The CBI survey appeared to confirm the continued recessionary pressures on the UK economy, but Mr Norman Lamont, the UK chancellor of the exchequer, gave no indication to a television audience at the weekend of any plans to cut base rates again at present.

The setback across the Footsie stocks was widespread, with most of the blue chips recording losses. ICI weakened afresh as prospects of an all-out bid from Hanson continued to fade. Glaxo gave ground as recent excitement in the pharmaceutical sector died down.

Hopes that a consumer boom will lead the UK out of recession were dented by predictions from sector analysts that beer sales are showing substantial falls from last year's levels. Building and construction issues, which have borne the brunt of the impact of high interest rates in the UK, suffered further losses yesterday.

Account Dealing Dates			
*First Dealings:	June 17	Jul 1	Jul 15
Option Declarations:	Jun 27	Jul 11	Jul 25
Last Dealings:	Jun 28	Jul 12	Jul 26
Account Day:	Jul 8	Jul 22	Aug 5

*New-time dealings may take place from 9.00 am two business days earlier.

Brewing stocks go flat

BREWERY shares weakened further as more analysts turned cautious on the domestic beer market. They underlined the view that as the recession continues consumers could look for ways to economise on spending, and as the number of unemployed rose beer sales would come under pressure.

The dismal summer weather in the UK has also taken its toll, with analysts suggesting that May's beer consumption could be as much as 12 per cent lower than in 1990. The brewing industry does not issue consumption figures but industry observers watch the related official production figures. Beer production numbers for May will be published in the second half of July.

The more domestically oriented brewers were hard hit. Whitbread dropped 10 to 466p and Scottish & Newcastle slipped 7 to 373p, both ending at their lows for the day.

The more international brewing-related stocks were also depressed. Allied Lyons finishing 13 down at 536p, Grand Metropolitan 17 lower at 738p and Guinness 12 weaker at 984p. The last two were also upset by fears of what proposals the European Community might make on the taxation of spirits.

Lasmo stands out

Enthusiastic reappraisals of Lasmo provided the spur for one of only three risers among FT-SE 100 stocks yesterday. The stock closed up 7 at 335p, although volume was relatively light at 1m shares.

The stock was helped by positive comment from County NatWest, which reached clients yesterday. Ms Angela Burns of County said: "The company was trading at a 19 per cent discount to asset value. We also pointed out that it has very strong cash flow generation and should be able to increase its dividend by 10 per cent."

Kleinwort Benson has also tipped the company, ranking it with Ultramar (steady at 289p), the pick of the independent oil sector.

With markets in Tokyo and New York falling, international stocks tracked the FT-SE index lower. Adverse press comment continued to undermine Hanson, which declined 4¾ to 205¼p, its lowest level since February 6. Turnover was a steady 8m.

Speculation surrounding the future of Davy Corporation filtered over to Trafalgar House. Davy had fallen from above 100p at the end of last week after announcing hefty losses on its oil rig conversion contract, but it shrugged off the placing of 1.1m shares at 48p overnight and regained 11 to 62p on reports that Germany's Mannesmann was showing an interest in its lucrative metals division. There was also more general speculation that Trafalgar House was in play but would need a rights issue to find the £150m needed to buy the metals division. Trafalgar lost 11 to 243p.

An analysts' visit was the somewhat surprising focus for a drop in Siebe. The stock had been buoyant and no bad news was expected by observers travelling yesterday to the company's Foxboro subsidiary in the US. Before they arrived the shares had fallen and they closed 11 down at 438p. One expert said Siebe had strongly outperformed the market in the past month and the visit drew investors' attention to profit-taking.

Reece, a cycle components distributor and door panels maker known as Cauldron until last year, lost a penny to 11¾p as a large line of stock was placed in the market. Traders said an investor had tried to sell at 14p when the stock rose after press comment. The placing ran into difficulties, however, and the stock hung over the market until it was sold at a discount yesterday.

Steetley, the building materials group, shed 4 to 325p following a large placing, said to be by Cazenove. The 3m shares (around 2 per cent of the equity) were placed at 312p, a significant discount to the trading price.

Builders suffered across the board as feelings grew that Germany would increase interest rates and force banks to hold off an interest rate cut in the UK. Among the chief losers were RMC, 14 weaker at 635p, Redland, down 12 to 558p, Taylor Woodrow, off 8 at 220p, and Tarmac, 4 easier at 216p.

An analyst's cut in profits forecast prompted Delta, the electrical cables and engineering group, to fall 9 to 380p. Mr Ian Lowe of Smith New Court lowered his 1990 profits prediction by £12m to £57m. This would reduce earnings per share by 4p from last year's 39p. He said trading, particularly in the heavy power cable side of the business, had deteriorated sharply.

Electrical utilities remained friendless as buyers stayed on the sidelines in the absence of news from the Conservative party, where internal arguments last week left privatised industry stocks lower. Scottish Power and Scottish Hydro-Electric, which began trading a week ago, slipped 2½ to 105½p and 1¼ to 112½p respectively. Turnover continued to subside.

Electricity distributors and English generators lost ground across the board. The worst performances came from PowerGen, 4½ down at 140½p, and Seeboard, 5 easier at 185p.

Gestetner, the distributor of office equipment and photographic products, was 10 stronger at 168p after announcing a better than expected first half with profits steady at £21.7m. The company said the slight dividend rise to 1.8p reflected confidence in its long term growth prospects.

Last week's warning of losses from discount house Union Discount kept the buyers away from the financials sector. The worst performer was First National Finance, which lost 12 to 138p ahead of interim results due on July 1.

Weekend press reports of interim losses from TSB were taken seriously by traders early in the session. However, the shares had partly recovered by the close, ending at 143p for a net decline of 1¼.

Greycoat dipped 7 to 245p as the shares reached their lowest level since November 1987 on speculation that final results on Thursday will disappoint. Over the past six weeks, Greycoat has fallen steadily on talk that its 1990/91 net asset value (nav) could halve, due to the company's exposure to the depressed market for office property in London. County NatWest is forecasting a fall in nav to 490p from 726p.

There was also unease ahead of Speyhawk's interim results scheduled for Friday. The shares closed 4 lower at 44p.

Frogmore was unchanged at 311p after the bid from Southend Property lapsed. Analysts said the news had not come as a surprise since the cash element in Southend's offer was regarded by many as insufficient to win shareholders' acceptance. Southend was unaltered at 88p.

Burton slipped 8 to 56p following reports that a UK stockbroker was about to issue a bearish report. Other analysts also remained bearish. Mr Nick Bubb of Morgan Stanley said Burton was suffering from the low level of consumer spending and was also losing market share. Dealers are nowwaiting for a statement from the company on current trading and store closures, which is expected in the next fortnight.

Ratners put on 3 to 145p as Hoare Govett issued a buy recommendation. Ratner's year-on-year sales would soon start to pick up, said Hoare, simply because this time last year there was a sudden sharp decline and the current numbers would register an advance on that level. Hoare also believes the worries over Ratners' debt have been overdone, while a 9¼ per cent yield offers good support.

Argyll was one of three FT-SE stocks to register a rise as investors switched out of Tesco. The former finished 3 higher at 286p and Tesco ended 5 lower at 269p.

Hotel leaders sagged once more under the weight of cautious comment from analysts. Yesterday it was the turn of County NatWest to reiterate its sell recommendations, and Ladbroke fell 7 to 255p while Forte slipped another 3 to 259p.

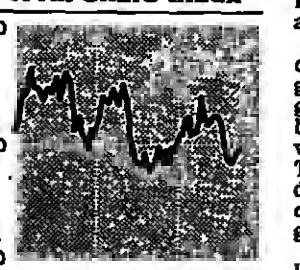
Tour operator Airtours leapt ahead in response to interim figures showing lower losses. The shares eventually succumbed to the wider market's gloom, however, and ended a penny easier on the day at 469p.

Anglia Television shed 5 to 160p ahead of interim results due on Friday.

A reassuring statement at WPP's annual meeting helped the shares recover almost all the ground lost on Friday amid fears that the company might breach covenants negotiated in its refinancing in April. WPP said yesterday that "although trading remains difficult . . . the group continues to perform within the constraints established at that time". The shares ended 12 better at 134p in its customary thin trade. Sentiment was also helped by the revelation that a Fidelity fund had taken a large stake in the company.

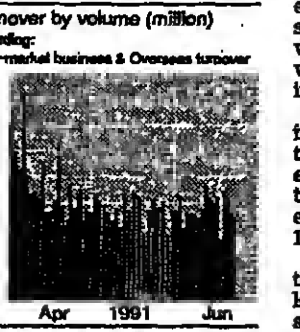
■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 28.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (46).
AMERICANS (7) Abbott Labs., American T & T, Ford Motor, Honeywell, Lockheed, Pennzoil, Rockwell, BREWERS (1) Wolv. & Dudley, BUILDINGS (1) Bloxleys, CHEMICALS (1) BTP, ELECTRICALS (3) Forward, Misys, ENGINEERING (2) Cook (Wm), Kvaerner B, FOODS (1) Farepak, INDUSTRIALS (7) Bellareare Cons. Prods., Erskine House, ISS-Int. Serv. Syst. B, Le Creuset, Novo Nordisk B, Wolseley, Worthington (A J), INSURANCE (1) USLIFE, TRANSPORT (1) IoM Steam, TRUSTS (4) Derby, Genesis Emrg. Mkts., Law Debenture, Templeton Emg. Mkts., OILS (2) Aberdeen Pet., Bow Valley, Woodside, MINES (8) Anglo Amer., De Beers Linked Units, Gencor, Gold Fields S.A., Joel (H J), Johannesburg Cons., Malaysia Mng., Northern Plat., St Barbara.
NEW LOWS (61).
AMERICANS (1) Gt. Amer. First Savings Bank, BANKS (4) Anglo Irish, First Nat. Fin., Do. 6.3pc Pf., Mitsubishi, BREWERS (1) Macallan-Glenlivet, BUILDINGS (4) Bellwinch, Freeman, NSM, Sandell, CHEMICALS (1) Evode, STORES (3) Asprey, Burton, Sears, ELECTRICALS (5) Arlen, INSTEM, Microvitec, Norsk Data A, TGI, ENGINEERING (2) Locker (T), Tex, FOODS (1) Ptarmigan, INDUSTRIALS (9) BTR Warrants, Granada, Hunting, Nu-Swift, Pilkington Warrants, Rock, Stainless Metalcraft, Tame (John), Wiltshire, LEISURE (2) Anglia TV, Konick, PAPERS (1) Coleflax & Fowler, PROPERTY (6) Anglo St. James, Greycoat, MEPC, Scottish Metropolitan, Stanhope, Trevian, TEXTILES (1) Aitch, TRANSPORT (1) Lep, TRUSTS (8) Drayton Cons., Finley (James), Korea Liberal Wrnts., Murray Enterprise, Murray Ventures, Nat. Home Loans, OILS (2) Expl. Co Louisiana, Richmond Oil & Gas, MINES (1) Monarch Res.

FINANCIAL TIMES STOCK INDICES

	June 24	June 21	June 20	June 19	June 18	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	83.66	83.79	83.81	83.75	83.66	80.36	85.86 (18/2)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.62	92.86	92.85	92.85	92.90	88.54	94.24 (8/4)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	1921.1	1947.3	1943.7	1948.3	1971.5	1929.4	2014.5 (8/4)	1608.3 (16/1)	2014.5 (8/4/91)	49.4 (26/6/40)
Gold Mines	200.7	203.8	207.0	199.5	198.4	173.9	209.1 (11/6)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2458.3	2487.5	2479.9	2484.7	2518.0	2398.5	2545.3 (8/4)	2054.8 (16/1)	2545.3 (8/4/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1155.22	1168.86	1162.33	1162.89	1178.07	-	1192.11 (5/6)	938.62 (16/1)	1192.11 (5/6/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.94	4.86	4.88	4.87	4.81	4.80				
●Earning Yld %(full)	8.70	8.59	8.61	8.58	8.50	10.60				
●P/E Ratio(Net)(*)	14.14	14.32	14.29	14.33	14.50	11.44				
SEAQ Bargains 4.45pm	22,421	23,004	24,344	27,328	28,572	23,493				
Equity Turnover(£m)†	-	725.48	803.65	840.10	853.40	698.90				
Equity Bargains†	-	22,941	24,368	28,049	30,381	22,943				
Shares Traded (ml)†	-	340.5	354.3	417.5	445.0	318.8				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90.

Ordinary Share Index, Hourly changes — Day's High 1945.2 — Day's Low 1920.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1945.2	1937.9	1927.5	1930.5	1930.2	1930.5	1928.0	1928.2	1923.6

FT-SE 100, Hourly changes — Day's High 2485.8 — Day's Low 2457.8

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2485.3	2477.8	2476.5	2468.1	2468.5	2468.5	2463.4	2463.5	2460.5

FT-SE Eurotrack 200, Hourly changes — Day's High 1162.93 — Day's Low 1155.98

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1162.93	1161.10	1157.95	1157.93	1158.19	1156.89	1156.02

GILT EDGED ACTIVITY

Indices*	June 21	June 20
Gilt Edged Bargains	70.6	61.7
5-Day average	90.5	97.4

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

EQUITY FUTURES AND OPTIONS TRADING

LONDON equity futures drifted lower yesterday as the UK market appeared to lack independent direction and instead followed overseas markets down.

The June FT-SE 100 index futures contract opened at a discount to the cash index following a sharp fall in Tokyo. The downward trend was confirmed after the latest figures for UK output, which showed a fall in the first quarter of this year, the third in a row, and confirmed that the economy remains in recession.

A decline on Wall Street deepened the London market's malaise and by the close the June FT-SE future was at its low point of the day. The losses continued on the thinly traded after-hours' dealing system.

With no immediate cut in UK interest rates on the horizon and the trend in overseas markets still negative, many derivative dealers believe the futures market could drift lower in the coming days.

The June FT-SE closed at 2,449, down 37 on the day. It finished at a 7-point discount to the cash index, compared to fair value, which brokers estimate to be parity.

In the traded options market, dealing remained depressed. The FT-SE index was more active, trading 9,790, with the June 2,450 puts the busiest. British Gas was the most active stock option.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Five to Fifteen Years

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Undated

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Index-Linked

1991 High	Low	Stock	Price £	+ or -	(1)	(2)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, ie 8 months prior to issue and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1990: 130.3 and for May 1991: 133.5.

INT. BANK AND O'SEAS

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CORPORATION LOANS

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COMMONWEALTH & AFRICAN LOANS

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LOANS

Building Societies

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Public Board and Ind.

1991 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOREIGN BONDS & RAILS

1991 High	Low	Stock	Price £	+ or -	Div %	Red. Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

APPOINTMENTS

ICI Group finance changes

■ Mr Ivan Marshall, vice president, finance and administration, ICI Americas Inc, becomes controller-designate of the ICI GROUP from September 1. He will succeed Mr Don Hindson who retires on February 29. Mr Helmut Radder, finance director, ICI Polyurethanes, succeeds Mr Marshall at ICI Americas Inc from August 1. Mr Brian O'Driscoll, controller, corporate operations, group finance department, has been appointed group chief internal auditor. Dr John Charlton, finance director, ICI India, becomes finance director, ICI Materials, from August 1. He will be succeeded by Dr Christopher Vallance, controller, corporate systems, group finance department.

■ Mr James Woods and Mr Mark Girling have been appointed associate directors of HERRING SON & DAW.

■ Mr Hendrik Jan van der Hoeven, assistant managing director of ROYAL INTERNATIONAL INSURANCE HOLDINGS, has been promoted to managing director from July 1. He will succeed Mr David Parry who becomes managing director of Royal Life Holdings from that date. Mr van der Hoeven continues as chief executive of Royal Nederland.

■ Mr Keith Douglas-Mann has been appointed a director of NATIONAL WESTMINSTER BANK's City and West End regional advisory board. He was chairman of both Jones Lang Wootton International and Jones Lang Wootton UK, and is now a consultant to the partnership.

COATS VIYELLA has appointed Ms Fiona Harrison (pictured) as chief executive of the Jaeger group from September 2. She is vice president of Clairol Inc, a division of Bristol-Myers Squibb Co, with worldwide responsibility for Clairol Appliances. Dr David Speirs has been appointed chief executive of Dynacast International from August 1. He was group chief executive, automotive, at BTR Industries.

■ Following Mr J.R. Coomber's appointment as deputy managing director of SWISS RE (UK), Mr J. Lockyer has been appointed general manager (life), Mr S.J. Riley becomes deputy general manager (non life), and Mr D.H. Brown, secretary and financial controller, additionally becomes assistant general manager.

■ WESTERN TRUST AND SAVINGS, Plymouth, has appointed Mr John V. Brady as executive director, finance. He was financial director of Avonmore Creameries Co, Kilkenny.

■ HOGG INSURANCE BROKERS has appointed Mr John Hansford as a director of the marine division, responsible for development of busines in North America. He was with Harris & Dixon.

■ Mr Mike Bailey has been appointed manufacturing director of APOLLO FIRE DETECTORS, Havant, part of the security and office technology division of Halma.

■ Mr Kelvin Curran has been appointed an executive director of FENCHURCH LONDON, with responsibility for professional indemnity business.

■ Sir John Ure has been appointed a non-executive director of the THOMAS COOK GROUP, succeeding Sir Kenneth James, who is retiring. Sir John, who takes up the post on August 1, is UK commissioner general to Expo '92 in Seville. He has been British ambassador in Sweden, Brazil and Cuba.

■ Dr Peter Harrop becomes chairman of KALAMAZOO, Birmingham, on July 31 succeeding Mr Kenneth Dibben who is resigning to pursue other business interests.

■ Mr Peter Howarth has been appointed managing director of Royal Mail Parcelforce, and joins the POST OFFICE board. He was assistant managing director, Royal Mail.

■ WIMPEY CONSTRUCTION MANAGEMENT has appointed Mr Simon Dando as business development director. He was sales director, Conder Group.

LINEMANN INDUSTRIES, Stindley, has appointed Mr Jerry Trafford (pictured) as financial director. He was with the Inchcape Group.

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

AMERICANS

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

For Scots. Hydro-Electric and Scottish Power see EQUITIES under LONDON RECENT ISSUES

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

For Trusthouse Forte see Forte

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd

INSURANCES

مكتبة ... الأصل

LONDON SHARE SERVICE

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

For Zurich Group see Abaco Group

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT—Contd

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

1991 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
314	261	Anglian Water £1	[illegible]	–1	17.5	q3.4	7.[illegible]	7.5
165	135	East Surrey Water 10p	[illegible]	.....	8.0	2.7	6.[illegible]	(6.2)
178	155	Mid Kent Hldgs £1	[illegible]		a9.67	♦	7.[illegible]	♦
318	256	North West Water £1	[illegible]	–2	18.0	q2.5	7.[illegible]	6.3
339	263	Northumbrian Water	[illegible]	–5	L16.04	3.7	[illegible]	4.7
305	231	Severn Trent £1	[illegible]	–1	17.55	q3.0	7.[illegible]	4.0
300	228½	Southern Water £1	[illegible]	–2	L15.03	2.5	[illegible]	6.9
327	254	Sth West Water £1	[illegible]	–1	20.0	q2.7	[illegible]	3.0
323	252	Thames Water £1	[illegible]	–1	17.5	q2.4	[illegible]	7.2
356	272	Welsh Water £1	[illegible]	–1	19.5	q3.4	7.[illegible]	4.4
388	255	Wessex Water £1	[illegible]	–2	L15.21	2.8	[illegible]	6.9
330	264	Yorkshire Water £1	[illegible]	–4	17.7	q2.2	6.[illegible]	6.7

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

For Endeavour see St. Barbara

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. *Estimated price/earnings ratios and* covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm +) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- ▮ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♠ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ▮ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	655	.....
Finlay Pkg. 5p	27	.....
Holt (Jos) 25p	1825	.....
Helton Hldgs.	40	.....
IRG	128½xd	.....
United Drug	170xd	–3

IRISH

Cap. 8½% Ln. 1991	£99¼	.....
9pc Cap Ln. 1996	£98½	.....
Fin. 13% 97/02	£115	.....
Arnotts	160	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Asec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons	45
Comm Union	44
Courtaulds	32
Eurotunnel	30
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	30
Lucas Inds	13
Marks & Spencer	21
Midland Bk.	18
Nat West Bk.	27
P & O Dfd.	51
Racal Elect	18
RHM	28
Rank Org Ord.	63
Ratners	17
Reed Intnl.	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land	30
Control Secs.	3
Land Securities	45
MEPC	40
Mountleigh	8½

Oils

Aviva Petlm.	3
Brit Petroleum	28
Burmah Castrol	49
Cooray Petlm	10
Gaelic Res	1
Premier	6
Shell	41
Tuskar Res.	2
Ultramar	30

Mines

Lonrho	21
RTZ	40

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H 80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	47.84	49.84	53.30	-0.32	6.51
Gilts & Fixed Int	6	110.3	110.3	116.9	-0.1	9.84
High Inc Equity	6	133.3	137.0	145.7	-0.4	5.83
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Bishopsgate Progressive Mngt Co (1200)F 155 St James' Place, London SW1A 1NW 071-493 8111						
Progressive Inc	5	19.34	19.34	20.41	...	1.15
Progressive Acc	5	29.13	29.13	30.77	...	1.13
Intl/Inc	5	20.22	20.22	21.34	...	1.29
International Acc	5	26.87	26.87	28.36	...	1.29
Cap & Foreign Inc	5	233.3	233.3	246.2	...	0.94
Cap & Foreign Acc	5	270.8	270.8	294.2	...	0.94
Special Sits Inc	5	206.1	206.1	217.5	-3.4	1.45
Special Sits Acc	5	223.0	223.0	236.2	-3.7	1.45
PEP Inc	5	132.7	132.5	141.0	-3.8	1.12
PEP Acc	5	141.7	143.3	151.5	-3.0	1.12
Growth Inc	5	82.16	82.16	86.71	...	0.93
Growth Acc	5	82.50	82.50	87.07	...	0.93
Brewin Dolphin Unit Tst Mgrs Ltd (0905)F 5 Giltspur St, London EC1A 9DE 071-236 6441						
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Commercial Union Tst Mgrs—Contd.						
PPT Japan	6	108.56	108.56	115.49	-2.28	0.96
PPT UK	6	94.34	94.34	100.36	-1.27	1.80
PPT US	6	105.94	105.94	112.70	-1.14	0.69
PPT Canada	5	49.37	49.37	52.53	-1.14	0.00
PPT Commodities	6	47.30	47.30	50.40	-0.71	4.59
PPT Gold	5	31.69	31.69	33.71	-1.04	0.00
PPT S'pore & Malays	5	76.06	76.06	80.91	-0.81	0.00
PPT Global Bond	5	61.00	61.00	64.95	-0.06	3.69
PPT Investment	6	82.75	82.75	87.91	-0.63	0.30
PPT Thai	6	43.82	43.82	46.62	-1.04	0.00
PPT Cash	0	81.85	81.85	81.85	+0.06	13.63
Confederation Funds Mngt Ltd (1200)F Lytton Way, Stevenage, Herts SG1 2NN 0438 744840						
Growth Fund	6	41.31	41.31	44.18	-0.34	5.7
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
GA Unit Trust Mngrs Ltd (1000)H 4 Melville Crescent, Edinburgh 031 220 3466						
G & A	5¼	175.0	174.0	184.4	-0.5	4.88
Cash*	1½	49.90	49.90	50.04	+0.03	10.80
Growth Portfolio	5¼	47.50	47.50	50.35	-0.15	1.99
Income Portfolio	5¼	48.90	48.90	51.83	+0.15	6.37
*C.A.R. — Compound Annual Rate						
GT Unit Managers Ltd (1200)H 8th Floor, 8 Devonshire Sq, London EC2M 4YJ 071-220 4444 Dealing 071-626 9431						
UK Capital (Inc)	5¼	137.20	137.20	146.00	-0.50	4.38
UK Capital (Acc)	5¼	221.10	221.10	236.50	-0.80	4.38
Income	5¼	97.31	97.31	104.10	-0.40	7.86
International	5¼	187.50	187.50	199.70	-0.90	1.26
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Kleinwort Benson Unit Trusts (1400)F 10 Fenchurch Street, London EC3 Dealers 071-956 7364 Admin 071-623 8000						
Income Trusts						
Extra Income	5¼	48.15	48.96	52.08	(z)	6.76
(Accum Units)	5¼	57.59	58.55	62.29	(z)	6.76
Gilt Yield	5¼	104.8	104.8	110.7	(z)	9.48
(Accum Units)	5¼	259.7	259.7	274.5	(z)	9.48
Global Income	5¼	164.1	166.4	177.0	(z)	4.52
(Accum Units)	5¼	330.5	335.1	356.4	(z)	4.52
High Yield	5¼	115.8	115.8	123.2	(z)	6.05
(Accum Units)	5¼	285.9	285.9	304.2	(z)	6.05
PPP Income	5¼	9.133	9.233	9.822	(z)	5.70
(Accum Units)	5¼	10.18	10.29	10.94	(z)	5.70
Smllr Cos Div	5¼	38.47	40.42	43.00	(z)	6.51
(Accum Units)	5¼	43.20	45.38	48.28	(z)	6.51
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Marks & Spencer Unit Trust Ltd (1200)F PO Box 410, Chester X, CH99 9DE 0244 680066						
M & S Inc P'folio	5¼	110.7	111.1	118.8	-0.7	3.22
Do Accum	5¼	117.0	117.5	125.6	-0.7	3.22
UK Sel P'folio	5¼	94.95	95.56	102.2	-1.0	4.55
Do Accum	5¼	100.8	102.0	109.0	-1.0	4.55
Marlborough Fund Managers Ltd (1630)F 57 Victoria Square, Bolton, BL1 1LA 0204 364062						
Managed Tst	5	49.60	49.93	53.11	...	5.02
Martin Currie Unit Trusts Ltd (0905)H 48 Melville St, Edinburgh EH3 7HF Dlrs 031-220 4924						
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Murray Johnstone UT Mgmt (1000)H 7 West Nile St, Glasgow G2 2PX 0345 900 933						
Acumen	5	68.78	69.02	73.67	-0.29	3.90
Acumen Reserve	3	63.96	63.98	65.69	...	11.57
American Income	5	134.45	134.50	142.6	-0.92	2.97
Equity Income	5	81.61	81.81	87.52	-0.52	1.03
European	5	54.50	54.50	58.27	...	1.03
Far Eastern	5	112.2	112.3	119.9	-0.82	0.43
Smaller Cos	5	43.69	43.69	46.38	...	2.43
Olympiad	5	47.15	47.15	50.31	-0.08	1.03
Olympiad Income	5	44.12	44.12	47.07	-0.12	3.33
UK Growth	3	70.40	71.08	75.86	-0.32	2.00
NFU Mutual Unit Mngrs Ltd (1400)F Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex Enquiries 0277 227300 Dealing 0277 261010						
[illegible]						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Rothschild Asset Management—Contd.						
[illegible]						
Royal Life Fd Mgmt Ltd (1000)F PO Box 34, Peterborough PE2 0UE						
[illegible]						

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administration costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (◆) - 1101 to 1400 hours; (●) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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Century Life Plc

Crusader Insurance Plc

Assicurazioni GENERALI SpA

Legal & General (Unit Pensions) Ltd

Merchant Investors Assurance Co Ltd

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd
6–7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or −	Yield Gross
Life Managed Fd	105.6	111.1	−0.4	–
Pension Managed Fd	103.0	100.4	−0.7	–
Life Deposit Fd	107.6	113.2	----	–
Pension Deposit Fd	112.9	110.9	+0.1	–

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	108.1	113.8	−5.0	–
Managed Growth	136.6	143.8	−6.3	–
Managed Opportunity	139.4	146.8	−6.2	–
NFMC Target Financial	101.6	107.0	−0.3	–
Pension Funds				
Managed Cautionary	110.2	124.3	−6.1	–
Managed Growth	144.5	152.2	−6.7	–
Managed Opportunity	139.6	147.8	−6.5	–
NFMC Target Mngd Pen	1319	1599	−41	–

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Harvester Pension Funds				
Managed	162.8	171.4	----	–
UK Equity	168.4	177.3	----	–
Overseas Equity	143.0	150.6	----	–
Fixed Interest	142.0	149.5	----	–
Property	128.3	135.1	----	–
Index Linked	146.9	154.7	----	–
Deposit	157.1	165.4	----	–
With Profits (B)	128.9	135.8	----	–

National Provident Institution
48 Gracechurch St, London EC3P 3HK 071-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	349.2	367.6	−2.0	–
UK Equity	434.3	457.2	−3.7	–
Overseas Eq	350.0	368.5	−2.9	–
American	292.9	308.4	+2.2	–
Far East	379.7	399.7	−2.6	–
Property	190.8	200.9	+0.1	–
Fixed Int	257.6	271.2	−0.1	–
Indexed Gilt	152.9	161.1	+0.1	–
Deposit	182.3	191.9	+0.2	–
Pension Fund (Accum Units)				
Managed	496.6	522.8	−2.4	–
UK Equity	577.9	608.4	−4.7	–
Overseas Eq	587.3	618.3	−0.8	–
American	379.9	399.9	+1.8	–
Far East	631.0	664.3	−4.7	–
Property	241.3	254.0	+0.1	–
Fixed Int	315.4	332.1	−0.3	–
Indexed Gilt	169.2	178.2	+0.1	–
Deposit	255.7	269.2	+0.2	–
NPI Pensions Management Ltd				
Managed Fund	1095.6	1115.2	----	–

Prices June 3 Next dealing July 1

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or −	Yield Gross
Initial Equity	150.0	158.5	(z)	–
Accum Equity	215.0	227.0	(z)	–
Accum Managed	225.0	237.0	(z)	–
Accum Five Star	171.5	181.0	(z)	–
Accum World	125.0	132.0	(z)	–
Accum Lifetime	102.8	108.8	(z)	–
Pens Acc Equity	232.0	244.3	(z)	–
Pens Acc Managed	281.0	296.0	(z)	–
Pens Acc Intl	215.5	227.5	(z)	–
Pens Acc Deposit	199.3	210.5	(z)	–
Pens Acc Five Star	188.5	199.0	(z)	–

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or −	Yield Gross
UK Equity Acc	222.4	234.6	−2.1	–
UK Fixed Int Acc	172.5	182.0	−0.2	–
Intl Equities Acc	180.9	190.9	−0.8	–
UK Managed Acc	172.8	182.2	−1.8	–
Property Acc	224.3	236.7	----	–
Money Acc	129.4	136.6	+0.1	–
Special Market Acc	141.0	148.8	+0.3	–
Japan Equity Acc	106.9	112.8	−1.7	–
North American Acc	111.9	118.1	+1.0	–
Pacific Acc	98.1	103.5	−0.3	–
Technology Acc	124.7	131.6	−0.6	–
Nat Resources Acc	62.4	65.9	−0.7	–
European Acc	102.6	108.3	−0.3	–
Residential Prop Acc	96.2	101.5	----	–
Swiss Equities Acc	35.4	37.4	−0.2	–
Hong Kong Acc	65.9	69.6	+0.5	–
UK High Inc Eq Acc	72.4	76.4	−0.9	–
Int Fixed Interest Acc	57.1	60.3	−0.1	–
Int Managed Acc	57.3	60.4	−0.1	–
HIP Managed Acc	117.0	124.2	+0.3	–
HIP Managed II Acc	99.9	105.3	−0.5	–
HIP Managed III Acc	106.3	112.3	−0.3	–
Total Investment Bond				
UK Equity Initial		151.9	−1.6	–
UK Fixed Int Initial		117.6	−0.2	–
Intl Equities Initial		122.4	−0.6	–
UK Managed Initial		117.8	−0.7	–
Property Initial		154.1	----	–
Money Initial		88.7	----	–
Special Market Initial		104.7	+0.3	–
Japan Equity Initial		83.1	−1.3	–
North American Initial		87.1	+0.9	–
Pacific Initial		76.3	−0.3	–
Technology Initial		96.9	−0.3	–
Nat Resources Initial		48.6	−0.3	–
European Initial		92.2	−0.4	–
Residential Prop Init		92.0	----	–
Swiss Equities Initial		33.9	−0.3	–
Hong Kong Initial		63.1	+0.3	–
UK High Inc Eq Init		69.2	−0.8	–
Int Fixed Interest Init		56.4	----	–
Int Managed Init		55.8	−0.3	–
HIP Managed Init		114.7	+0.3	–
HIP Managed II Initial		98.5	−0.4	–
HIF Managed III Init		106.2	−0.3	–
Broker Funds				
High Performance	73.1	77.1	−0.1	–

CMI Insurance Co Ltd—Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
Nordic Equity	£0.4420	0.4760	−0.003	–
Benelux Equity	£0.4510	0.4850	----	–
Dollar Funds				
Antipodean Equity	$0.5400	0.5810	+0.002	–
Canadian Equity	$0.4610	0.4960	−0.001	–
Japanese Equity	$0.5070	0.5460	+0.001	–
US Equity	$0.4680	0.5220	----	–
SE Asia Equity	$0.5510	0.5930	----	–
US Bond	$0.4700	0.5060	----	–
Japan Bond	$0.4730	0.4660	----	–
US$ Currency Reserve	$0.4750	0.5110	----	–

ECU Futures Plc

	Bid Price	Offer Price	+ or −	Yield Gross
ECU Guaranteed Funds		145.0	+2.0	–
ECU Rapier		122.0	+1.0	–

Edinburgh Money Management Ltd
4 1a Charlotte Square, Edinburgh EH2 4HQ 031 220 1244

	Bid Price	Offer Price	+ or −	Yield Gross
Select Portfolio	28.9	30.3	+0.1	–

Fairmount Financial Services Ltd
Fairmount Hse, Bell Hill, Leatherhead 0372 370000

	Bid Price	Offer Price	+ or −	Yield Gross
Secure		105.7	----	–
Growth		104.0	----	–

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar hit by profit-taking

THE DOLLAR finished towards the lower end of the day's range in Europe yesterday. In early trading it moved up towards resistance at DM1.82, but retreated sharply after failing to break through this level.

The initial advance followed the apparent lack of specific proposals to cap the currency at the London meeting of finance ministers and central bank governors from the Group of Seven leading industrial nations. Nevertheless, the G7 commitment to co-operate and if necessary take "appropriately concerted action in exchange markets," was seen as a threat to the present strength of the dollar, and it eventually encouraged profit taking.

At the London close the dollar had fallen to DM1.7845 from DM1.7990; to Y138.85 from Y136.95; to SFr1.5335 from SFr1.5465; and to FFr6.0600 from FFr6.1100. Its index declined to 67.6 from 67.9.

Problems involving some of Japan's large securities houses prompted a comment of regret from Mr Ryutaro Hashimoto, Japanese finance minister, and weighed on the yen. This reflected the threat that a financial scandal may undermine confidence in the Tokyo securities market. The yen weakened, with the D-Mark rising to Y77.80 from Y77.25.

The D-Mark held steady around the middle of the European exchange rate mechanism, showing little reaction to a firming of wholesale interest rates in Frankfurt or to comments by Mr John Major, the UK prime minister, reported in the French press.

Mr Major said it was essential for Germany to avoid any rise in inflation and under these circumstances a tightening of monetary policy may be justified.

Sterling was also steady, remaining the third weakest member of the ERM, above the Danish krone and French franc. Britain's current account deficit in May was a lower than expected £523m, against a revised shortfall of £473m in April, following an upward revision in the surplus on invisible earnings. This had little impact however, as attention remained focused on the dollar.

In London the pound rose 1.15 cents to $1.6425. It also improved to Y228.00 from Y226.75, but was slightly weaker against most European currencies, falling to DM2.9300 from DM2.9350; to FFr9.9525 from FFr9.9650; and to SFr2.5175 from SFr2.5225. Sterling's index climbed 0.2 to 89.9.

The Spanish peseta remained at the top of the ERM, but well within its allowed limit against the bottom placed French franc, as the Bank of Spain and Bank of France left credit policies unchanged at yesterday's tenders, adding liquidity to the banking systems in Madrid and Paris.

Speculation about a possible devaluation of the peseta faded, pushing the Spanish currency up to FFr5.4250 per 100 pesetas from FFr5.4095 at the Paris fixing, its highest level since June 17.

EMS EUROPEAN CURRENCY UNIT RATES

£ IN NEW YORK

STERLING INDEX

Jun 24		Previous
8.30 am	89.5	89.6
9.00 am	89.6	89.6
10.00 am	89.6	89.7
11.00 am	89.7	89.8
Noon	89.6	89.8
1.00 pm	89.7	89.7
2.00 pm	89.8	89.7
3.00 pm	89.8	89.7
4.00 pm	89.9	89.7

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

June 24	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.643	2.930	228.0	9.953	2.518	3.303	2181	1.877	60.35	1.430
$	0.609	1	1.783	138.8	6.058	1.533	2.010	1327	1.142	36.73	0.870
DM	0.341	0.561	1	77.82	3.397	0.859	1.127	744.4	0.641	20.60	0.488
YEN	4.386	7.206	12.85	1000.	43.65	11.04	14.49	9566	8.232	264.7	6.272
F Fr.	1.005	1.651	2.944	229.1	10.	2.530	3.319	2191	1.886	60.63	1.437
S Fr.	0.397	0.653	1.164	90.55	3.953	1	1.312	866.2	0.745	23.97	0.568
H Fl.	0.303	0.497	0.887	69.03	3.013	0.762	1	660.3	0.568	18.27	0.433
Lira	0.459	0.753	1.343	104.5	4.564	1.155	1.514	1000.	0.861	27.67	0.656
C$	0.533	0.875	1.561	121.5	5.303	1.342	1.760	1162	1	32.15	0.762
B Fr.	1.657	2.722	4.855	377.8	16.49	4.172	5.473	3614	3.110	100.	2.370
ECU	0.699	1.149	2.049	159.4	6.960	1.761	2.310	1525	1.313	42.20	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

BASE LENDING RATES

	%		%		%
ABN Bank	11.5	Comm. Bk of London Plc	11.5	McDonnell Douglas Bnk	11.5
Adam & Company	11.5	Co-operative Bank	11.5	Midland Bank	11.5
Allied Trust Bank	11.5	Coutts & Co	11.5	Mount Banking	11.5
AIB Bank	11.5	Cyprus Popular Bk	11.5	NatWestminster	11.5
● Henry Ansbacher	11.5	Duncan Lawrie	11.5	Northern Bank Ltd	11.5
B & C Merchant Bank	11.5	Equatorial Bank plc	11.5	Nykredit Mortgage Bnk	11.5
Bank of Baroda	11.5	Exeter Bank Limited	12	Provincial Bank PLC	12.5
Banco Bilbao Vizcaya	11.5	Financial & Gen. Bank	12	Roxburghe Guar Ltd	11.5
Bank Credit & Comm	11.5	First National Bank Plc	11.5	Royal Bk of Scotland	11.5
Bank of Cyprus	11.5	● Robert Fleming & Co	11.5	● Smith & Williamson Secs	11.5
Bank of Ireland	11.5	Robert Fraser & Prtns	12	Standard Chartered	11.5
Bank of India	11.5	Girobank	11.5	TSB	11.5
Bank of Scotland	11.5	● Guinness Mahon	11.5	● United Bk of Kuwait	11.5
Banque Belge Ltd	11.5	● Hambros Bank	11.5	Unity Trust Bank Plc	11.5
Barclays Bank	11.5	Hampshire Trust Plc	11.5	Western Trust	11.5
Benchmark Bank	11.5	Heritable & Gen Inv Bnk	11.5	Westpac Bank Corp	11.5
Brit Bk of Mid East	11.5	● Hill Samuel	11.5	Whiteaway Laidlaw	11.5
● Brown Shipley	11.5	C. Hoare & Co	11.5	Yorkshire Bank	11.5
CL Bank Nederland	11.5	Hongkong & Shanghai	11.5	● Members of British Merchant Banking & Securities Houses Association.	
Citibank NA	11.5	● Leopold Joseph & Sons	11.5		
City Merchants Bank	11.5	Lloyds Bank	11.5		
Clydesdale Bank	11.5	Meghraj Bank Ltd	11.5		

MONEY MARKETS

London's firm tone

INTEREST RATES had a firm tone in London yesterday, showing no reaction to better than expected May UK trade figures. Three-month sterling interbank rose to 11¼-11⅛ from 11⅛-11 per cent, while 12-month money was unchanged at 10⅞-10¾ per cent.

Day-to-day credit remained in short supply on the cash market and the Bank of England did not appear to supply enough assistance to take out the full underlying shortage. This was initially forecast at £1,150m, but was revised to £1,200m at noon and to £1,250m in the afternoon. Total help of £1,074m was provided.

An early round of help was offered and at that time the authorities bought £250m bank bills outright in band 2 at 11⅛ per cent. Before lunch another £478m bills were purchased, by way of £386m bank bills in band 1 at 11⅛ per cent; £1m Treasury bills in band 2 at 11⅛ per cent; and £91m bank bills in band 2 at 11⅛ per cent. In the afternoon £31m bank bills were bought in band 1 at 11⅝ per cent. Late assistance of around £315m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,562m, with exchequer transactions absorbing £190m. These outweighed a fall in the note circulation adding £575m to the system and bank balances above target of £50m.

In Madrid the Bank of Spain left its money market intervention rate unchanged at 12.75 per cent when providing liquidity at a regular tender for central bank certificates.

In Paris the Bank of France also kept its money market intervention rate unchanged. The central bank injected funds into the domestic banking system at 9 per cent, while the five to 10-day repurchase rate was left at 10 per cent. It also offered 24-hour repurchase agreements at 10¼ per cent to relieve tight conditions in the market.

In Brussels the Belgian National Bank announced an unchanged seven-day advances rate of 8.75 per cent before its fixed rate tender against government paper and commercial bills.

In Frankfurt call money rose to 8.75 from 8.70 per cent on strong demand for funds, as banks' holdings of reserves at the Bundesbank declined. Reserves eased to DM65.6bn on Thursday from DM66.9bn and probably declined further on Friday, according to dealers.

UK clearing bank base lending rate 11.5 per cent from May 24, 1991

FT LONDON INTERBANK FIXING

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	8½	One month	5.47	Three year	7.40
Broker loan rate	7¾	Two month	5.55	Four year	7.59
Fed funds	5⅞	Three month	5.72	Five year	7.96
Fed funds at intervention	–	Six month	5.94	Seven year	8.21
		One year	6.08	10-year	8.34
				30-year	8.52

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

FORTHCOMING MARRIAGES

MR. C.J.C. BOARDMAN AND MISS JULIA F.WASTENEYS CARRICK.

The engagement is announced between Christopher,eldest son of Mr. and Mrs. Gwyther Boardman of Henley-on-Thames,Oxon., and Julia,youngest daughter of the late Dr. David Carrick and of Mrs. Muriel Carrick of Feering House,Kelvedon,Essex.

Mr. J. BURTON AND MISS CAROLINE SCOTT

The engagement is announced between James,youngest son of Mr. and Mrs. Burton of Burton Overy,Leicestershire,and Caroline,youngest daughter of Mr.Scott and the late Mrs.D.Scott of The Pink House,Uley ,Gloucestershire.

COMPANY NOTICES

SAVE & PROSPER FINANCIAL SECURITIES LTD

Coupon 140 falls due for payment on 19th July 1991 at a rate of 1.95p per Financial Securities Fund Unit.

Coupons should be presented to:- Global Custody Services, The Royal Bank of Scotland Plc, Unit Trust Services, Regent's House, PO Box 348, 42 Islington High Street, LONDON, N1 8XL from whom listing forms can be obtained.

Coupons must be lodged by an authorised depositary and left three days for examination.

CLUBS

EVE has outlived others due to policy of fair play and value for money. Supper from 10-3.30 am. Glamorous hostesses, exciting cabaret. 189 Regent St, W1.071-734 0557

LEGAL NOTICE

LANDERVILLE LIMITED

We, N J Vooght and R B Graham of Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG were appointed Joint Administrative Receivers of Landville Limited by Bank of Scotland on 12 June 1991.

Dated 12th June 1991

N.J. Vooght & R.B. Graham

Joint Administrative Receivers

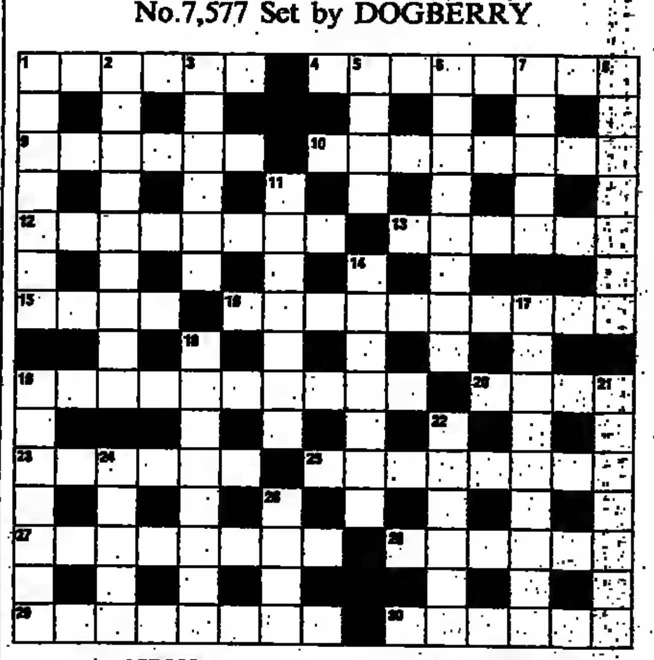
OBITUARIES

PARFITT, ADRIAN, MONDAY On 17th June in Ceret,France.Memorial service to be held in London.Details from family.No flowers please.Donations to Cancer Research.

CAMP, WILLIAM ARTHUR FIPA. Memorial.Family and all friends Sion College,Blackfriars London 11 July 11-12 noon.Luncheon and details Tony Hardiman 081-788 7102.

CROSSWORD

No.7,577 Set by DOGBERRY



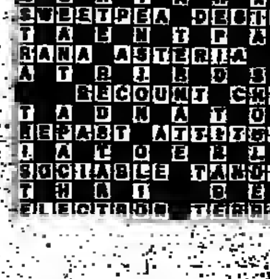
ACROSS

1 Chest – audibly, his is congested (6)
4 It scuttles in the dry to catch cancer (4,4)
9 Model malefactress's involuntary behaviour (6)
10 Bid for anything but bottoms? (2,6)
12 Composer's tea-pipe (8)
13 Exact retribution from Heaven! Get even! (6)
15 The comfort of simplicity (4)
16 Not committed to supply oil to the capital (10)
19 Skinflint shrew following clothhead with piles (10)
20 Self-satisfied, sticks around (4)
23 Be right about undergarment turning trimmer (6)
25 Crewmen love to tease the raw recruit (8)
27 Party about to grasp the opening words (8)
28 Spies on model's father (6)
29 Believer, a holy and a learned person, in the navy (8)
30 Pay for calm (6)

DOWN

1 Outer layer of 9 in anagrammatic clue (7)
2 Day on which accountants clap eyes on dish (9)
3 Centre of addendum (centre of extra piece) (6)
5 Wide-eyed, in the past, and lightweight (4)
6 Extracted from Time Out, opposed to anger rising (8)
7 City dweller in state by river (4)
8 Cry about healthy diarist (7)
11 Ordered to live on part of wheel (7)
14 Butter with less taste (7)
17 Animal eating representative dairy product (9)
18 Exercises turn on the edge of time but they don't last long (8)
19 Australian mate takes in apprentice as last worker (7)
21 Crowd about to decay, being put to death (7)
22 A lot of sailors are said to increase (6)
24 About to advance round puzzle (5)
26 Raise stake on mountain (4)

Solution to Puzzle No.7,576



WORLD STOCK MARKETS

CANADA

TORONTO

3:00 pm prices June 24

MONTREAL

4:00 pm prices June 21

INDICES

NEW YORK

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

TOKYO - Most Active Stocks

Monday 24 June 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	[illegible]	408	-2	Clarion	2.5m	980	-30
Nippon Carbon	7.[illegible]m	517	+30	Hitachi	2.4m	1,060	-20
Mitsubishi Heavy	3.[illegible]m	710	+4	Chiyoda	2.2m	2,400	-100
Tobishima	2.[illegible]m	824	-95	Japan Steel Wks	2.1m	746	-86
NKK	2.8m	391	-3	Sumitomo Metal	1.8m	400	-6

3:15 pm prices June 24

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅝	9¾	AAR Corp	9.48	0.06	13	326	14½	14	14½	−½
10¾	14½	A L Labs A	0.15	0.01	16	198	15⅝	10¾	10¾	−¼
50½	45⅞	AMP Inc	1.44	0.30	16	879	50⅝	40⅞	49⅞	−1
65⅝	44¼	AMR				182492	51⅝	61	61⅝	−1⅝
2⅝	1¾	ARX			1	64	1¾	1⅝	1⅞	−⅛
31½	41½	ASA	3.50	0.02	14	746	49½	48⅝	49¼	−⅛
54	39¼	Abbott Lab	1.30	0.83		223682	61⅞	60⅝	31⅛	−⅛
14½	6⅞	Abitibi Pr	0.50	0.04	25	28	13⅝	13⅝	10½	
11⅝	18½	ACM Gvt In x	1.26	6	12	298	10⅞	10⅝	18⅞	+¼
9⅝	0¾	ACM GvOpp x	1.01	0.11		196	9⅛	9	9⅛	
2¾	6¼	ACM Gvt Sp	1.01	0.11		157	9	6⅞	9	
11	6⅞	ACM Gvt Se x	1.26	0.10		918	10¾	18¼	10⅛	−⅛
9⅛	7⅝	ACM Man x	1.01	0.16		167	9⅛	9	6	−⅛
19⅞	11½	ACM Managd x	1.37	0.11		210	13	11⅞	12	
7½	4⅞	Acme Cleve	0.40	0.07	14	198	0⅞	6	6	−⅛
6	3½	Acme Elect			44	30	4⅝	4½	4½	−⅛
45	22¾	Acuson			26	301	31⅛	30½	30½	−⅞
18½	14¾	Adams Expr	0.73	0.04	9	188	17⅞	17½	17½	−⅛
20⅛	10¼	Adobe12Pf	2.40	0.18		268	18¼	d18	18⅛	−⅛
9¼	7	Adobe Res			39	8	7	d7	7	−¼
39⅝	16	Ad Micro				214	34⅞	34¼	34¼	
14¾	4⅞	Ad Micro P	3.90	0.26		122523	12	11⅛	11⅛	−⅛
0½	6¼	Advest Grp	0.16	2.04	5	64	4⅛	4⅛	4⅛	−⅛
49⅛	33⅞	Aetna Li	2.10	9.07	7	787	41⅝	41	41½	−⅛
10⅝	0⅝	Ahll A	0.24	0.03	35	201	6⅞	6⅞	8⅛	−⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices June 24

[illegible]

NASDAQ NATIONAL MARKET

3:15 pm prices June 24

[illegible]

AMERICA

Weakness in Japan filters through to US equities

Wall Street

SCANDAL in the Japanese securities industry and the steep drop in the Nikkei weighed on Wall Street yesterday morning, where US equities moved sharply lower in sluggish, midsession trading, *writes Karen Zagor in New York.*

At 1.30pm, the Dow Jones Industrial Average was 35.33 lower at 2,930.23. Although the stock market sell-off was broadly based, with the Standard & Poor's 500 registering a 4.94 drop to 372.81 at 1pm and the American Stock Exchange index falling 4.09 to 361.27, volume was thin, with only 77m shares changing hands by 1pm. Declining issues outpaced advancing by a ratio of four to one. On Friday, the Dow added 11.62 to 2,965.56.

Stock prices spiralled lower as the scandal in Tokyo continued to grow. Wall Street, already shaken by the recent declines in the Nikkei, was further rattled by the resignations of the presidents of Nikko Securities and Nomura Securities, two of Japan's largest brokerage houses, after they admitted that the companies had reimbursed favoured clients for losses suffered in last year's collapse of the Tokyo stock market.

The scandal rocked a market already gloomy about the prospect of weak second quarter corporate earnings. IBM, which last week shook the stock market with its depressed second quarter estimates, eased $⅛ to $99⅛ yesterday. Waste Management, which also shook investors last week with its subdued outlook, dropped $1 to $36⅝ in active trading.

Among the most active blue chip issues, Philip Morris slid $⅝ to $64⅛, PepsiCo edged $⅛ lower to $29¾ and American Telephone and Telegraph dropped $⅝ to $37⅝.

Columbia Gas and Electric, which dropped about $16 last week after suspending its dividend and worrying investors about the possibility of a bankruptcy filing, reversed direction and added $⅝ to $17⅛.

Eljer Industries, which is the target of a $20-a-share takeover offer from the Jacuzzi unit of Hanson group of the UK, rose $¾ to $15¾ after Eljer said it would meet with Jacuzzi's president.

In the secondary market, the Nasdaq composite plunged 7.74 to 478.08, as most bellwether over-the-counter stocks moved lower. Apple Computer dropped $⅝ to $41⅝, Intel fell $2 to $45 and Sun Microsystems lost $2⅞ to $28¾.

Lotus Development was one of the few winners of the morning, adding $⅛ to $31⅛ on the news that the company had licensed networking and electronic mail products to IBM.

Archive plunged $1⅛ to $5⅛ on a projected operating loss of between 30 and 40 cents a share in the third quarter, reflecting a significant drop in orders.

Canada

TORONTO stocks fell to session lows in slow midday trade on fears of rising inflation as the economy recovers. Lack of corporate news and a public holiday to the province of Quebec kept trading quiet.

The composite index lost 32.7 to 3,484.4. Declines led advances by 295 to 118 on volume of 9.4m shares.

Leading the downturn, Toronto-Dominion fell C$⅛ to C$18⅝, Magna class A lost C$¼ to C$11⅛, National Bank of Canada slipped C$⅛ to C$10⅞ and Alcan eased C$⅛ to C$23¾. Loewen Group was flat at C$13⅛. The funeral home company declared a 1 cent per share dividend late on Friday following the two-for-one stock split in early June.

Europe provides week's worst performers

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1991	% change sterling † Start of 1991	% change in US $ † Start of 1991
Austria	−1.35	−0.32	−16.23	+14.34	+12.41	−5.00
Belgium	−1.40	−1.35	−9.49	+14.81	+13.49	−4.09
Denmark	+1.03	+4.71	+0.48	+23.86	+22.14	+3.22
Finland	−1.73	−7.03	−19.34	+18.37	+16.48	−1.56
France	−2.57	−0.48	−11.30	+17.42	+15.70	−2.22
Germany	+0.12	+1.99	−9.73	+18.58	+16.81	−1.46
Ireland	−3.04	−2.25	−18.69	+15.22	+14.06	−3.61
Italy	−2.84	+0.52	−23.46	+14.42	+14.11	−3.56
Netherlands	−0.76	+1.81	+2.69	+20.52	+18.73	+0.35
Norway	+2.22	+0.93	−9.46	+14.29	+13.24	−4.31
Spain	−1.83	−2.15	−1.00	+24.67	+24.75	+5.42
Sweden	+1.59	+6.33	−8.18	+36.16	+39.17	+17.61
Switzerland	+0.29	+1.16	−4.76	+23.31	+20.30	+1.68
UK	−1.41	+0.52	+3.69	+15.91	+15.91	−2.04
EUROPE	−1.20	+0.96	−4.22	+17.74	+16.89	−1.23
Australia	+0.57	−1.80	+2.60	+18.68	+40.47	+18.71
Hong Kong	−1.64	−2.96	+11.03	+21.83	+45.72	+23.14
Japan	−2.53	−3.74	−18.45	+7.86	+24.60	+5.30
Malaysia	−0.25	−2.58	+8.84	+14.85	+31.93	+11.49
New Zealand	+0.32	−7.09	−26.10	+12.37	+30.32	+10.11
Singapore	−2.64	−3.28	−7.95	+25.78	+45.83	+23.24
Canada	−1.09	+1.95	−0.05	+6.36	+27.78	+7.99
USA	−1.28	−0.08	+4.82	+14.58	+35.57	+14.58
Mexico	−1.68	−0.20	+103.14	+73.08	+100.57	+69.50
South Africa	+3.54	+10.41	+14.02	+24.86	+51.78	+28.26
WORLD INDEX	−1.58	−1.02	−6.09	+13.36	+27.33	+7.80

† Based on June 21st 1991. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Ltd

By Jacqueline Moore

THERE WAS little enthusiasm for equities last week, as most markets recorded moderate losses.

A fall in Japan of 2.5 per cent in local currency terms was tempered by more modest declines in the US and UK, leaving the FT-Actuaries World Index down 1.6 per cent.

The Japanese market was depressed mainly by receding hopes of an interest rate cut, says brokers Nomura International. Firm interest rates and a relatively poor demand/supply situation are likely to put further pressure on stock prices this week, it adds.

However, Nomura does see room for some encouragement. "A number of large-capitalisation stocks are trading towards their year's lows and should attract bargain hunters this week," it says, although yesterday the market was more concerned with the resignations of the presidents of Nomura Securities and Nikko Securities in Tokyo.

Europe provided the week's worst performers as Ireland, Italy and France fell by between 2.5 and 3 per cent. Ireland was merely depressed by the weakness of overseas markets, says Mr Robbie Kelleher of Davy's, the Dublin-based brokers. He adds, however, that the market is also suffering from indigestion after the partial privatisation of Greencore (formerly Irish Sugar) in April, this month's rights issue by fruit importer Fyffes, and the forthcoming privatisation of Irish Life, the insurer.

Italy fell on news late in the week of the government's plan to raise tax revenue by forcing companies to revalue their property assets. UBS Phillips & Drew doubts whether the government will be strong enough to push the measure through, but adds: "If such a decree gets passed by the parliament, our 1991 earnings per share forecast of minus 5 per cent looks optimistic."

Two of last week's other losers, the UK and France, are now looking fair value, says Ms Vanessa Rossi of Swiss Bank Corporation, although politics has been holding them back. Paris was hampered by renewed rumours that Mr Pierre Bérégovoy, the finance minister, was about to resign, and by the continued social unrest in the country.

Several brokers expect Paris to recover. Ms Rossi says: "On a fundamental valuation, the French market looks more attractive than Germany, for instance, where people are asking whether the recent firmness can hold up, and the US, where further upside progress from recent highs looks difficult."

Not all investors were disappointed last week. The Nordic Index put on 1.3 per cent in local currency terms as three of the four Scandinavian bourses advanced. Norway was Europe's best performer, as the market's sound fundamentals and expectations of a firmer oil price finally attracted buyers, says Ms Rossi.

The only other market in confident mood last week was South Africa. Most of the demand continued to come from domestic institutions, although foreigners are turning more positive on the market, says one analyst. He warns, however, that the rally is now probably near its peak.

ASIA PACIFIC

Nikkei tumbles as Nomura and Nikko chiefs resign

Tokyo

SHARE prices tumbled 2.1 per cent yesterday on the news that the presidents of two leading Japanese brokerages had stepped down, following last week's admissions of investor compensation and dealings with a crime syndicate, *writes Emiko Terazono in Tokyo.*

The Nikkei average fell 509.62 to 23,765.46. The market opened at the day's high of 24,263.04, but selling by individual investors set in on news that Mr Yoshihisa Tabuchi, president of Nomura Securities, had resigned. The market was unsettled further in the afternoon when Mr Takuya Iwasaki, president of Nikko Securities, also resigned. The day's low was 23,763.39.

Volume shrank to 220m shares as institutions stayed away. Declines overwhelmed advances by 816 to 161, while 153 issues were unchanged. The Topix index of all first section stocks lost 29.25 to 1,844.59, with all 36 sectors declining, and in London the ISE/Nikkei 50 index shed 10.64 to 1,366.35.

Mr Masami Okuma at UBS Phillips & Drew said it would be difficult to regain the confidence of individuals after the brokerages' confessions that they had compensated favoured large institutions for trading losses. But others said the scandal would not affect the attitude of foreign investors, because the brokers' activities had been known for a long time.

Brokerage shares plummeted, with Nomura Securities shedding Y90 to Y1,800, Daiwa Securities Y90 to Y1,150, Yamaichi Securities Y42 to Y951 and Nikko Y58 to Y932. Nomura's price has fallen 10 per cent since June 17, just before the scandal was made public.

Tokyu, the railway company, weakened Y130 to Y1,060 after the Tokyo Stock Exchange said it would examine transactions to the stock, following allegations in local newspapers that a brokerage house had manipulated the share price.

Isuzu Motors fell Y16 to Y459 on projections of a pre-tax loss of Y30bn for the current year to March 1992. Mazda Motor lost a net Y9 at Y581 after rising in the morning on news that it had won this year's Le Mans 24-hour car race.

Nippon Carbon added Y30 at Y817 on buying by investors looking for quick profits. There were rumours that a group of speculators was interested in the issue.

High-priced small-capital issues retreated on profit-taking. Sega Enterprises, the video game maker, fell Y300 to Y13,700. The stock had risen more than 30 per cent from the year's low recorded in March. CSK, the computer software concern, slipped Y120 to Y5,630 and Seven-Eleven Y220 to Y8,250.

Tokyo Steel declined Y110 to Y3,090, the year's low. Investors were discouraged by last week's reports that electric furnace steelmakers plan to reduce steel bar production. Others to the sector were also weaker, with Godo Steel down Y140 at Y2,000.

In Osaka, the OSE average dipped 235.77 to 26,782.70 on volume of 15.9m shares.

Danger of symbol over substance, Page 17

Roundup

TOKYO's weakness depressed the Pacific Rim region. Singapore was closed.

MANILA dropped in anxious trading on concern over the widespread damage wrought by the eruption of Mount Pinatubo and the loss of revenue if the US army were to withdraw. The composite index lost 36.09 or 3.4 per cent to 1,046.53 in volume of 101m pesos, after Friday's 147m.

NEW ZEALAND eased, with thin turnover in some stocks exaggerating losses. Brokers reported that the change-over to automated screen trading went smoothly. The Barclays index closed 4.25 lower at 1,437.38 on light volume of NZ$9.6m, after NZ$14.8m.

Independent Newspapers, 49 per cent owned by Mr Rupert Murdoch's News Corp, was the day's biggest loser as it slipped 10 cents to NZ$3.55 with just 2,700 shares traded.

AUSTRALIA fell on futures-related selling. The All Ordinaries index lost 8.9 to 1,503.2 in volume of A$131m, down from A$156m. Westpac Banking shed 11 cents to A$4.57 as 3.8m shares changed hands on news that Australian Guarantee Corp, its finance unit, expects a big loss this fiscal year.

SEOUL ended higher after a volatile session. The composite index was down 11 points by mid-afternoon but closed a net 2.48 up at 593.05 on heavy buying by government institutions. Volume was active at Won106bn, boosted by purchases of some 400,000 shares by the stabilisation fund.

TAIWAN surrendered a portion of Saturday's sharp gain. The weighted index was off 42.54 at 6,090.19 after Saturday's 99-point rise. Volume eased to T$40.4bn (T$42.9bn).

HONG KONG's morning gains were erased in the afternoon. The Hang Seng index was 36 points higher at one stage before closing 4.40 ahead at 3,569.54 on thin volume of HK$750m, after HK$747m.

BANGKOK was disheartened by last week's plunge. The SET index fell 19.05 or 2.5 per cent to 754.49, the lowest level since the February 23 coup, on moderate volume of 2.9bn baht.

JAKARTA declined as investors tried to cut their losses. The official index dipped 2.47 to 370.24 but turnover jumped to 8.2m shares from 1.4m.

BOMBAY dropped sharply on fears of a harsh budget. The BSE index tumbled 56.39 or 4.2 per cent to 1,305.33.

EUROPE

Milan leads losses as pessimism grips bourses

FT-SE Eurotrack 100 - Jun 24

Hourly changes

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1134.31	1132.28	1130.56	1128.33	1128.36	1127.63	1125.65	1126.07

Day's High 1134.35 Day's Low 1123.25

June 21	June 20	June 19	June 18	June 17
1141.29	1131.17	1131.61	1148.56	1149.39

Base value 1000 (26/10/90)

BOURSES were in pessimistic mood yesterday, as Milan continued to worry about the government's property revaluation plans. Interest rate fears, Wall Street's early weakness and profit-taking hit other markets, *writes Our Markets Staff.*

Dollar-related stocks were mostly weak yesterday, after the Group of Seven's warning at the weekend that central banks would intervene to control a further rise in the dollar. Analysts, however, said that the long-term outlook for the dollar remained positive. In a recent report on the historic performance trends of dollar-sensitive stocks in Europe, Enskilda Securities said the dollar would be pushed higher as the attraction of other major currencies deteriorated, as the US economy recovered and as corporates further unwound hedged positions.

The report featured 15 continental European companies which had outperformed their respective markets as the dollar advanced in the first half of the 1980s.

MILAN remained disheartened by last week's news that the government intends to force companies to revalue their property assets for tax purposes. The uncertainty about how the tax would be implemented – there have been few details owing to a strike by journalists – added to the gloom.

The Comit index fell 11.78 or 2 per cent to 580.96 to volume estimated at less than Friday's L200bn. Insurers again led the market lower, as the sector index lost 3.8 per cent. Sai plunged L1,510 or 8.1 per cent to L17,240 and Generali L1,030 or 3.1 per cent to L33,370.

Some analysts, however, believed that the proposed revaluation of assets would hurt industrial companies more than insurance companies. "Insurance companies will be able to dip into reserves to pay the tax while some industrial companies will have to get into debt to do so," one analyst predicted. Fiat slipped L35 to L6,225, falling to L6,215 after hours.

Pirelli was one of the few stocks to buck the trend, on expectations that talks with German tyremaker Continental could be re-opened after an internal reshuffle at the Italian company. The stock rose L29 or 1.5 per cent to L2,000.

PARIS was enlivened by a takeover bid in the retailing sector, as the overall market sank 1.7 per cent on interest rate worries. The CAC 40 index lost 31.00 to 1,775.63 in light turnover of about FFr1.7bn, after Friday's FFr2.2bn.

Carrefour dropped FFr78 or 4 per cent to FFr1,889 on volume of 66,145 shares after announcing a bid for Euromarché, its supermarket rival, which was suspended until Thursday. Although the market took a negative view of the bid yesterday, one dealer said that the move looked positive for Carrefour in the long term.

Au Printemps, the department store company which has a large minority stake in Euromarché, jumped FFr42 or 6.6 per cent to FFr682. Viniprix, Euromarché's majority shareholder, was suspended.

FRANKFURT closed just off the day's low as profit-taking wiped out most of Friday's gains. Dealers said that the correction was to be expected after the exaggerated movements on Friday, which had been boosted by parliament's decision to move to Berlin and the DTB futures expiry.

While the market was expected to consolidate at current levels – downside support is seen at 1,660-1,670 – dealers were reassured that any selling had been in thin volume.

The FAZ index, calculated at midsession, fell 4.51 to 711.25 while the real-time DAX index closed 20.30 down at 1,691.56, just off the day's low of 1,689.85. Volume fell to DM6.2bn from DM8.6bn.

Among the blue chips that registered sharp gains on Friday Daimler-Benz ended DM11 lower at DM786 and Siemens lost DM7.90 to DM656.60.

Special situations bucked the trend. Horten, the retailer, rose 90 pfg to DM217 before its annual meeting tomorrow. Schering, the Berlin-based pharmaceuticals company, rose DM12 to DM796.

AMSTERDAM closed lower in light trading. The CBS Tendency index fell 1.1 or 1.2 per cent to 94.4. Dollar-sensitive stocks were weighed down by fears of intervention against the US currency.

ZURICH eased in dull trading, with the Crédit Suisse index down 4.5 at 541.2.

There was heavy demand, however, for registered stock in SMH, the watchmaker. The shares, trading ex a SFr12 dividend, rose SFr5 to SFr620 on an unconfirmed report that the company would jointly produce an environmentally friendly car with Volkswagen of Germany.

MADRID was little changed in thin trading. The general index edged down 0.11 to 278.39 in turnover of about Pta9bn, down from Pta16.1bn. Acesa, the motorway operator, rose Pta45 to Pta1,125 after announcing a final dividend of Pta40.

STOCKHOLM returned quietly after Friday's holiday. The Affärsvärlden General index fell 5.9 to 1,131.0 in small volume of SKr189m, down from SKr336m. ISTANBUL was closed for the first of its three days of holiday.

SOUTH AFRICA

A DECLINE in gold prices and nervousness that the recent surge had been overdone prompted a broad retreat. The all-share index fell 58 to 3,329 while the all-gold index plunged 48 to 1,326. The industrial index eased 35 to 3,865.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY JUNE 21 1991 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 20 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (70)	140.14	+0.7	127.39	123.09	131.08	121.83	+0.7	5.38	139.20	126.53	122.13	130.09	121.01	147.30	112.74	140.93
Austria (20)	186.80	−0.3	169.80	164.07	174.71	174.90	+0.4	1.55	187.44	170.38	164.46	175.18	174.29	222.37	167.00	250.86
Belgium (49)	126.81	−0.5	115.27	111.37	118.60	115.87	−0.1	5.09	127.42	115.83	111.79	119.08	115.96	151.20	121.73	149.87
Canada (115)	140.42	−0.4	127.64	123.33	131.33	118.22	−0.3	3.34	140.94	128.12	123.65	131.70	118.55	142.27	126.49	134.65
Denmark (37)	240.13	−0.4	218.28	210.92	224.59	226.41	+0.1	1.49	240.98	219.05	211.43	225.20	226.23	270.56	217.74	260.14
Finland (16)	101.53	−0.9	92.29	89.15	94.67	91.30	+0.0	2.67	102.41	93.09	89.85	95.70	91.30	125.15	90.81	136.56
France (114)	128.82	+0.5	117.10	113.14	120.47	123.46	+0.5	3.58	128.15	116.48	112.42	119.74	122.87	152.26	121.85	159.41
Germany (65)	110.27	+1.0	100.24	96.87	103.14	103.14	+1.0	2.17	109.23	99.29	95.85	102.08	102.08	125.35	102.43	132.20
Hong Kong (55)	150.00	−0.4	136.35	131.75	140.30	148.59	−0.4	5.22	150.59	136.88	132.12	140.73	149.14	161.77	119.62	134.28
Ireland (18)	143.10	−0.8	130.08	125.69	133.84	135.60	−0.6	3.77	144.37	131.23	126.67	134.91	136.43	162.46	132.88	166.60
Italy (77)	75.52	−2.7	68.65	66.33	70.63	75.48	−2.8	3.10	77.58	70.52	68.07	72.50	77.68	88.23	72.05	107.19
Japan (474)	131.38	+0.6	119.42	115.39	122.89	115.39	+0.7	0.73	130.63	118.74	114.61	122.09	114.61	146.97	118.35	145.11
Malaysia (68)	236.51	+0.0	214.99	207.78	221.20	253.45	+0.0	2.56	236.52	215.00	207.51	221.03	253.42	247.78	192.53	229.41
Mexico (15)	990.63	+0.1	900.49	870.09	926.53	3266.08	+0.1	1.97	989.86	899.79	868.48	925.04	3263.54	1079.72	534.45	514.11
Netherland (31)	134.44	+0.7	122.20	118.08	125.74	124.28	+0.8	4.31	133.44	121.30	117.08	124.70	123.30	145.73	125.70	141.32
New Zealand (13)	47.80	+0.4	43.45	41.98	44.71	44.06	+0.4	7.97	47.63	43.29	41.79	44.51	43.87	54.84	41.18	65.76
Norway (32)	195.47	+0.4	177.69	171.69	182.83	186.32	+0.7	1.58	194.76	177.04	170.88	182.01	185.04	223.24	182.24	234.60
Singapore (38)	196.28	+0.3	178.42	172.40	183.57	160.50	+0.4	2.11	195.62	177.82	171.64	182.81	159.92	208.25	151.63	205.51
South Africa (81)	234.57	−0.8	213.23	206.03	219.39	170.07	−0.1	3.23	236.46	214.95	207.48	220.97	170.31	236.46	173.00	172.47
Spain (55)	147.93	+0.3	134.47	129.93	138.35	128.63	+0.4	4.22	147.49	134.07	129.41	137.83	128.15	171.12	131.51	165.43
Sweden (26)	187.53	−0.5	170.47	164.72	175.40	180.80	+0.0	2.45	188.47	171.32	165.37	176.14	180.60	204.12	146.60	219.31
Switzerland (58)	90.42	+0.2	82.18	79.42	84.58	86.69	+0.5	2.21	90.24	82.03	79.18	84.35	86.22	100.67	82.17	105.25
United Kingdom (239)	162.29	+0.3	147.52	142.53	151.77	147.52	+0.3	4.97	161.88	147.15	142.01	151.26	147.15	167.44	156.27	166.84
USA (526)	152.74	+0.8	138.84	134.16	142.86	152.74	+0.8	3.17	151.90	138.08	133.26	141.96	151.90	158.24	125.95	143.84
Europe (837)	132.88	+0.2	120.79	116.71	124.29	122.89	+0.2	3.87	132.64	120.57	116.38	123.96	122.58	151.52	125.50	149.80
Nordic (111)	180.87	−0.8	164.41	158.87	169.17	165.77	+0.1	1.94	181.49	164.67	159.23	169.60	165.57	200.81	155.55	207.97
Pacific Basin (718)	132.07	+0.5	120.05	116.00	123.53	116.46	+0.8	1.10	131.36	119.41	115.26	122.76	115.72	145.92	117.86	144.51
Euro-Pacific (1555)	132.72	+0.4	120.65	116.57	124.13	119.87	+0.5	2.20	132.20	120.17	115.86	123.54	119.29	147.66	121.29	147.05
North America (640)	151.89	+0.5	138.07	133.42	142.09	150.29	+0.5	3.18	151.13	137.38	132.61	141.26	149.53	157.04	125.91	143.18
Europe Ex. UK (598)	114.84	+0.1	104.39	100.89	107.44	108.45	+0.2	3.09	114.70	104.26	100.66	107.21	108.19	129.80	106.85	136.06
Pacific Ex. Japan (244)	138.59	+0.2	125.98	121.74	129.63	124.58	+0.2	4.71	138.31	125.73	121.37	129.27	124.32	145.66	111.40	136.52
World Ex. US (1746)	134.53	+0.3	122.29	118.17	125.83	121.05	+0.4	2.26	134.07	121.87	117.64	125.29	120.52	148.18	122.32	147.10
World Ex. UK (2032)	137.48	+0.4	124.97	120.76	128.59	129.26	+0.5	2.34	136.87	124.42	120.10	127.92	128.61	145.77	120.06	142.67
World Ex. So. Af. (2210)	139.05	+0.4	126.39	122.14	130.06	130.69	+0.5	2.58	138.44	125.84	121.48	129.39	130.05	146.66	122.92	144.64
World Ex. Japan (1797)	145.37	+0.3	132.15	127.70	135.99	139.46	+0.4	3.49	144.87	131.86	127.12	135.41	138.92	152.83	126.69	146.10
The World Index (2271)	139.67	+0.4	126.96	122.68	130.64	131.03	+0.5	2.59	139.08	126.42	122.03	129.98	130.40	148.01	123.26	144.81

CONSTITUENT CHANGES: At the quarter-end review of the FT-Actuaries World Index, it was decided to make the following constituent changes with effect from July 1 1991: Additions: Telmex L (Mexico), Scottish Power (UK) and RJR Nabisco Hldgs. Corp. (US).
Latest prices were unavailable for this edition. Markets closed 21/6/91: Finland and Sweden.